

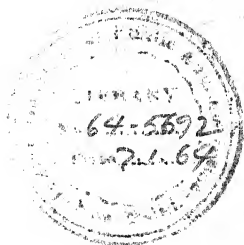
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MICHIGAN GOVERNMENTAL STUDIES
No. 16

SOCIAL SECURITY AND RELATED SERVICES IN MICHIGAN, THEIR ADMINISTRATION AND FINANCING

BY

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PREFACE

THE PRINCIPLE of social security is now well established as a means of protecting certain groups, such as the aged, the unemployed, and handicapped persons. Social security in this country was given great impetus by the enactment of the Federal Social Security Act in 1935. The decade following that year witnessed the enactment of legislation creating numerous fiscal and administrative relationships between federal, state, and local governments. The result is a complex social security system which is difficult for the layman to understand. The purpose of this study is to present a simplified statement of the important features of social security as it exists in Michigan with some attention to development and trends.

In the preparation of the study the author has received valuable assistance from state officials and members of the staff of the University of Michigan. The manuscript was read and criticized by Professor Arthur Dunham, of the Institute of Social Work; Mr. F. F. Fauri, Director, State Department of Social Welfare, and members of his staff; Dr. Robert S. Ford, Director, Bureau of Government, University of Michigan; Dr. Amos H. Hawley, Assistant Professor of Sociology, University of Michigan, and Mr. Clark Tibbitts, Director of the Institute for Human Adjustment, University of Michigan. Acknowledgment is due Mrs. Ione Dority, Chief Librarian, Bureau of Government, for the preparation of the Bibliography. The author is also indebted to the many state officials who gave freely of their time in furnishing information by personal interview and correspondence.

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CONTENTS

	PAGE
INTRODUCTION	I
 I. PUBLIC ASSISTANCE	 3
The Categorical Aids	4
Administrative Organization	4
Old Age Assistance	5
Aid to Dependent Children	11
Aid to the Blind	17
General Relief	19
Summary of Development	20
Administration	21
Eligibility and Benefits	23
Financing	25
Soldiers' Relief	29
 II. WELFARE SERVICES FOR CHILDREN AND HANDICAPPED PERSONS	 31
Child Welfare	31
Michigan Social Welfare Commission	31
Financing	34
Juvenile Institute Commission	35
The Juvenile Division of the County Probate Court	40
County Agent	41
County Boards of Social Welfare	41
Reorganization of the Child Welfare Services	42
Services for the Blind	46
Vocational Rehabilitation	47
Purpose	48
Eligibility	48
Administration	49
Financing	50
 III. HEALTH AND MEDICAL SERVICES	 52
Michigan Department of Health	52
Federal Participation	53

CONTENTS

	PAGE
INTRODUCTION	I
 I. PUBLIC ASSISTANCE	 3
The Categorical Aids	4
Administrative Organization	4
Old Age Assistance	5
Aid to Dependent Children	11
Aid to the Blind	17
General Relief	19
Summary of Development	20
Administration	21
Eligibility and Benefits	23
Financing	25
Soldiers' Relief	29
 II. WELFARE SERVICES FOR CHILDREN AND HANDICAPPED PERSONS	 31
Child Welfare	31
Michigan Social Welfare Commission	31
Financing	34
Juvenile Institute Commission	35
The Juvenile Division of the County Probate Court	40
County Agent	41
County Boards of Social Welfare	41
Reorganization of the Child Welfare Services	42
Services for the Blind	46
Vocational Rehabilitation	47
Purpose	48
Eligibility	48
Administration	49
Financing	50
 III. HEALTH AND MEDICAL SERVICES	 52
Michigan Department of Health	52
Federal Participation	53

Mental Hygiene	57
Child Guidance Program	59
Financing	60
Tuberculosis	61
Crippled Children	62
The Michigan Crippled Children Commission	63
Afflicted Children	68
Administration of Afflicted Children's Act	69
Local Health Services	71
 IV. SOCIAL INSURANCE	 74
Workmen's Compensation	74
Scope of Legislation	75
Administration	75
Compensation	76
Financing	77
Principal Features of the Michigan Workmen's Com- pensation System Compared with Those in Systems in Other States	 78
Unemployment Compensation	80
The Michigan Unemployment Compensation Act	81
Need for Standardization and Uniformity in State Un- employment Compensation Acts	 105
Railroad Unemployment Compensation	108
Comparison of Federal Railroad Unemployment Com- pensation System with State Unemployment Acts	 111
Old Age and Survivors Insurance	111
Administration	112
Eligibility	113
Benefits	115
Payroll Tax Rates	117
Distribution of the Burden of Payroll Taxes	117
Old Age Insurance Reserves	119
Should the Federal Government Share the Cost of Old Age Insurance?	 126
The Railroad Employee Retirement System	127
Administration	128
Financing	129
Coverage and Benefits	131

Some Comparisons Between the Social Security Systems as Provided by the Railroad Retirement Acts and the Social Security Act	132
V. SUMMARY AND CONCLUSION	134
Public Assistance	134
Old Age Assistance	134
Aid to Dependent Children	135
Aid to the Blind	136
Integration of Public Assistance Services	136
Welfare Services for Children and Handicapped Persons	138
Vocational Rehabilitation	141
Health and Medical Services	142
Social Insurance	146
Workmen's Compensation	146
Unemployment Compensation	147
Old Age and Survivors Insurance	151
The Railroad Employee Retirement System	154
REFERENCES	156
INDEX	177

INTRODUCTION

DURING the early years of the depression of the nineteen-thirties unemployment emergency measures were the center of public attention. As the depression continued it became apparent that a situation was developing which required a permanent and firmly grounded system of social security to cope with major economic crises and mass unemployment, and that only a comprehensive plan, national in scope, would be equal to the task. These were the conditions which led to the appointment by the President of the Committee on Economic Security. This committee submitted a report to the President early in 1935 which, with further congressional study, constituted the basis of the Social Security Act.

The purpose of this study is to examine the administration and financing of social security and certain related services in Michigan. The term "social security" is relatively new and its meaning varies,¹ but usage seems to sanction including in its scope the social insurances,² public assistance, certain health and child welfare services, and the rehabilitation of handicapped persons. Income maintenance or economic security of individuals or families is the immediate objective of these social services, but they also embrace the closely related services that are designed to prevent dependency and to restore or to improve the earning power of handicapped persons. The plan of this study is to give a brief description of methods of administering and financing the social security and related services carried on in Michigan by federal, state, and local agencies. Certain social

¹ For discussions of the meaning of "social security" see International Labour Conference, *Social Security: Principles and Problems Arising out of the War*, Pt. I, "Principles" (Montreal: International Labour Office, 1944); cf. Edwin E. Witte, *What to Expect of Social Security*, 34, No. 1, Suppl., Pt. 2 (1944): 212-13.

² No attempt is made in this study to examine all the social insurances effective in Michigan. Those excluded are the federal, state, and local government employee retirement systems and the veterans' program.

security programs are administered and financed by a single federal, state, or local agency; for others these responsibilities are shared by the state and federal governments or by the state and local governments.

For the purposes of this study social security and related services are divided into the following groups: (1) public assistance, (2) services for children and handicapped persons, (3) health and medical services, and (4) social insurances, including workmen's compensation, unemployment compensation provided by state and federal laws, old age and survivors' insurance under the Social Security Act, and the Railroad Retirement Act. These groups are examined in the order mentioned in the sections that follow.

I

PUBLIC ASSISTANCE

PUBLIC assistance is a broad term which is usually understood to include various activities carried on by the federal, state, and local governments to assist individuals at public expense.³

The history of public assistance in Michigan extends back into the period preceding statehood.⁴ Prior to the depression of the 1930's, public assistance on the state level was furnished mainly through institutions maintained for certain groups of handicapped persons. On the local level assistance was provided largely under the so-called "poor laws" which were administered by the county superintendents of the poor and township and city officials.

Three existing forms of public assistance are examined in this study—the categorical aids, general relief, and soldiers' relief. This classification is based upon differences in administrative organization and methods of financing the several forms of assistance. During the depression years of the 1930's, the federal, state, and local governments furnished funds to finance projects in order to stimulate business and create work for the unemployed. This service was provided through the Civil Works Administration (C.W.A.), the Works Progress Administration (W.P.A.), later known as the Work Projects Administration (W.P.A.), the Federal Emergency Relief Administration (F.E.R.A.), the Public Works Administration (P.W.A.), the Civilian Conservation Corps (C.C.C.), and the National Youth Administration (N.Y.A.). No attempt will be made in this study to review the activities of these agencies except for an occasional reference arising in connection with the discussion of the existing forms of relief. The several forms of public assistance will be defined and examined in the sections which follow.

³ A summary of the important facts and conclusions reached relative to public assistance is presented on pp. 131-41 of this study.

⁴ Arthur Dunham, "Public Welfare and the Referendum in Michigan," *Soc. Serv. Rev.*, 12 (1938): 417-39.

THE CATEGORICAL AIDS

The term "categorical aids," which has come into general use since the adoption of the Federal Social Security Act, includes public assistance to three groups of dependent persons which have been singled out for special treatment under the federal-state social security programs in the several states. These three groups consist of the aged, the blind, and dependent children in their own homes.

ADMINISTRATIVE ORGANIZATION

Under the provisions of the Social Security Act, state plans for the administration of any of the categorical aids may vary in order to meet local needs and conditions, but there are certain important requirements that must be met by all states in order to qualify for federal grants. To be approved by the Social Security Board the state plan must provide for a program which shall be effective in all political subdivisions; the state must participate in the financing of the program; a single state agency must either administer the plan or supervise its administration by local agencies; and an opportunity for a fair hearing must be guaranteed to one whose application for assistance is denied. In addition, the state plan must be at least as liberal as certain standards of the federal act relating to age, residence, and citizenship, and must conform to this act in certain particulars designed to safeguard effective administration, as for example the establishment of personnel standards on a merit basis. The act reserves to the states responsibility for administrative organization, including the selecting of personnel and establishing the basis of needs on which assistance shall be granted.⁵

State Bureau of Social Security

In Michigan the categorical aids are administered by the Bureau of Social Security—a division of the Social Welfare Com-

⁵ *Social Security Act*, as amended, Title I, sec. 2; Title IV, sec. 402; Title X, sec. 1002a.

mission.⁶ The commission may appoint a single executive to serve as director of the Bureau of Social Security and the State Department of Social Welfare, or it may appoint a separate executive to head each of these agencies. At present a single officer, designated by law as the director of the State Department of Social Welfare, is responsible for the administration of both agencies. A deputy supervisor is appointed by the supervisor to assist in directing and co-ordinating the activities of the state bureau. Separate divisions have been created in this bureau to administer field activities, keep records and disburse funds, select personnel, manage offices, and file.

On the local level, there is a bureau of social aid in the county department of social welfare.⁷ The local bureau is headed by a supervisor who is appointed by the state supervisor of the Bureau of Social Security. The remaining staff consists of social case work supervisors, social workers, and clerical assistants. The number employed is determined by the size of the case load, and is worked out with the personnel division of the state bureau. Although the bureau of social aid is in the county department of social welfare, it is responsible, with minor exceptions, directly to the state bureau, and, therefore, it is a state administered agency. All state and local positions in the bureau, in conformity with the Social Security Act, have been placed under a merit system and the personnel must be selected by the supervisor from the state civil service register. The features that are peculiar to each of the categorical aids will be examined separately in the following sections.

OLD AGE ASSISTANCE

In Michigan, as in other states, little progress was made in furnishing adequate assistance to the aged under the traditional administration of the old poor laws. When the Federal Social

⁶ *P.A.*, 1939, No. 280, as amended; *Manual of Policies and Procedures for the Administration of Old Age Assistance, Aid to Dependent Children, Aid to the Blind* (Lansing: Mich. Social Welfare Comm., 1942-44).

⁷ *P.A.*, 1939, No. 280, secs. 45, 46.

Security Act was passed in 1935, public assistance to the aged as a group was not new. More than one-half of the states had passed some form of old age assistance laws,⁸ and in a number of these, provisions had been made for state participation in financing and administering the program.⁹

An old age assistance law was enacted in Michigan in 1933, but it contained a number of objectionable features.¹⁰ First, to be eligible for assistance under the law a person must have reached the age of seventy and must have resided in the state for ten years. Second, as a means of financing the program a head tax of \$2.00 was imposed which proved difficult to administer. Third, the law contained an unsatisfactory plan of administering the grants within the counties. This law as revised in 1935 met the requirements of the Federal Social Security Act which was adopted later in that year. In 1937 new laws were enacted in an endeavor to establish an organization for the administration of the categorical aids and general relief, but these were repudiated by a referendum vote in 1938. The Social Welfare Act was passed in 1939, and as amended is the law in effect at the present time. The main features of the 1939 law,¹¹ applicable to old age assistance will be analyzed below.

*Eligibility*¹²

To be eligible for old age assistance, the applicant must be a person who (1) does not have sufficient income to provide a reasonable subsistence compatible with decency and health; (2) is sixty-five years of age or over; (3) has been a resident of Michigan for at least five of the nine years preceding the application, and has had continuous residence during the year preceding the application; (4) has no relatives legally liable for his support;

⁸ Harold M. Groves, *Financing Government* (New York: Henry Holt & Co., 1939), p. 588.

⁹ Robert T. Lansdale, Elizabeth Long, Agnes Leisy, and Byron T. Hipple, *The Administration of Old Age Assistance* (Chicago: Public Administration Service, 1939), p. 17.

¹⁰ *P.A.*, 1933, No. 237.

¹¹ *P.A.*, 1939, No. 280, secs. 220-40, as amended.

¹² *Ibid.*, sec. 25-27 as amended by *P.A.*, 1941, No. 186; *P.A.*, 1943, No. 238.

(5) has not transferred property within the five-year period preceding the application for the purpose of obtaining assistance or increasing the amount received; (6) is not an inmate of any public institution except for medical or surgical care in a hospital for a period of six months or less; (7) owns no real estate valued at more than \$3,500; (8) does not own tangible or intangible personal property, other than household goods or wearing apparel, valued at more than \$500, if single, and \$750, if married.¹³

Benefits

In determining the amount of benefits to which an aged person is entitled, the law requires that consideration must be given to the condition of the applicant, the community in which he lives, and the circumstances surrounding his case. The amount received by an individual may not exceed \$40 per month, with the exception that the amount may be increased to \$60 while the beneficiary is receiving hospitalization or care in a convalescent home. The Federal Government will pay one-half of the amount spent for old age assistance up to the \$40 maximum, and, in addition, 5 per cent of the administrative expenses.¹⁴

The Bureau of Social Security has developed administrative procedures to carry out the above requirements of the law. Standards and measurements have been established for evaluating needs, resources, and amount that may be granted. In order to determine the payment to be made in an individual case, it is necessary to compute a budget showing monthly needs and resources according to bureau standards. Information relative to needs and resources is obtained by consultation with the applicant, members of the same household, and any other source available. In computing the budget consideration is given insofar as possible to the living arrangements that the applicant desires to maintain. If a deficit exists between total need and total

¹³ Only the first \$500 of the cash surrender value of a life insurance policy is counted in determining the value of personal property.

¹⁴ *P.A.*, 1939, No. 280, sec. 28, as amended by *P.A.*, 1941, No. 186.

resources, the applicant is eligible for assistance, providing all other requirements have been met.¹⁵

The commission is authorized by law to prescribe the number of applicants for which adequate care may be provided with the funds made available. Appropriations were too small to permit all eligible applicants to obtain benefits until more recent years, and a large number of these were compelled to remain on the general relief rolls. In 1940, 32,009 cases were pending, and some

TABLE I
PUBLIC ASSISTANCE—AVERAGE MONTHLY PAYMENTS PER CASE
IN CASH AND KIND*
1934-1943

Fiscal Year Ending June 30	Old Age Assistance†	Aid to Dependent Children	Aid to the Blind	General Relief Shared by the State and Counties‡
1934	.....	.....	.....	.....
1935	\$ 9.86§	.....	.....	.....
1936	14.33	.....	.....	.....
1937	16.61	\$34.06||	\$22.65	\$21.71
1938	18.60	36.70	24.20	22.60
1939	16.90	37.72	24.67	20.74
1940	16.50	37.72	23.44	21.45
1941	16.82	40.10	23.15	22.15
1942	18.22	42.16	25.05	23.80
1943	22.69	48.49	28.55	25.87
1944	29.15	58.90	32.55	29.94

* Mich. Social Welfare Comm., Biennial Repts., 1938-44.

† Exclusive of burials, which are paid entirely from state funds.

‡ Data unavailable for years, 1934-36.

§ Old age assistance became effective June 5, 1935.

|| Aid to dependent children became effective August 27, 1936; federal grants became effective July 1, 1936.

of these had been waiting two years for relief. This number was reduced to 7,771 in 1941 and by June 30, 1942, the approval of applications was operating on a current basis. According to the state supervisor of social security, it was possible by May, 1942,

¹⁵ *Manual of Policies and Procedures for the Administration of Old Age Assistance, Aid to Dependent Children, and Aid to the Blind* (Lansing: Mich. Social Welfare Comm., 1942-44).

for eligible applicants to receive assistance thirty to forty-five days from the date of the application.¹⁶

As shown in Table I, the average monthly benefits rose from \$14.33 in 1936 to \$29.15 in 1944. In 1942 the maximum monthly payment allowed was increased from \$30.00 to \$40.00. In December of 1943, 10.5 per cent of the recipients of old age assistance were paid the \$40.00 maximum; 86 per cent received amounts ranging from \$15.00 to \$39.99, and 3.5 per cent received less than \$15.00.¹⁷

It is shown in Table II that Michigan occupies a middle position in the average monthly payment per case when compared with neighboring and comparable states; in three of these states

TABLE II
AVERAGE MONTHLY PAYMENT PER CASE FOR CATEGORICAL AIDS IN
SELECTED STATES FOR THE MONTH OF JANUARY, 1944*

State	Old Age Assistance	Aid to Dependent Children Monthly Average Payment Per Family	Aid to the Blind	General Direct Relief
California	\$47.15	\$70.56	\$47.26	\$30.74
Illinois	29.35	32.46	30.61	30.32
Indiana	23.45	33.83	30.29	19.79
Iowa	26.86	26.85	31.55	19.28
Michigan	28.53	59.81	32.61	29.30
New York	32.22	66.16	33.84	41.52
Ohio	28.02	49.37	24.76	25.61
Pennsylvania	28.28	52.29	29.76	21.31
Wisconsin	26.78	49.24	26.91	24.50

* *Social Security Bull.*, 7, No. 3 (1944).

the average monthly payment for January, 1944, exceeded that in Michigan and in five states it was less. The increases in the payment to the aged are well over the amount necessary to

¹⁶ F. F. Fauri, Acting Director of Michigan State Department of Social Welfare and Supervisor, State Bureau of Social Security, in *The Detroit News*, May 19, 1942.

¹⁷ *Mich. Bureau of Social Security*, Lansing, November 20, 1944.

AVERAGE CASE LOADS AND EXPENDITURES FOR PUBLIC ASSISTANCE AND WORK RELIEF*
IN MICHIGAN
1933-1943
(Expenditures in Thousands of Dollars)

Fiscal Year Ending June 30	Work Relief				Categorical Aids				Totals	
	General Relief		Emergency Relief Administration		Civil Works Administration		Work Projects Administration		Old Age Assistance	
	Monthly Average of Cases	Expenditures	Monthly Average of Cases	Expenditures	Monthly Average of Cases	Expenditures	Monthly Average of Cases	Expenditures	Monthly Average of Cases	Expenditures
1934	131,875	\$20,595	38,500	\$13,275	56,430†	\$46,985†	.....	.....	3,063	\$ 363
1935	165,961	45,612	46,106	33,971	.....	.....	50,303	\$42,763	15,398	2,968
1936	109,454	30,173	7,847	8,351	68,438	40,468	32,753	32,753	7,715	7,073
1937	63,886	22,295	.....	.....	84,011	60,188	72,022	14,947	12,853	5,143
1938	95,986	34,554	.....	.....	154,060	105,615	72,022	16,959	12,853	5,143
1939	83,701	24,155	.....	.....	85,618	56,213	77,301	16,436	15,028	7,853
1940	69,109	20,691	.....	.....	62,070	40,878	70,771	17,412	20,264	10,286
1941	54,420	17,218	.....	.....	32,507	23,026	92,520	21,840	21,360	11,410
1942	38,358	13,542	.....	.....	.....	.....	8,039†	26,185	17,555	10,679
1943	21,209	9,070	.....	.....	.....	.....	.....	13,656	.....	.....
1944	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
1934	58.1	32.0	17.0	14.8	24.9	52.3	.....	.....	.....	.....
1935	77.2	57.0	21.4	42.5	.....	.....	.....	.....	.....	.....
1936	57.0	35.8	4.1	9.9	.....	.....	.....	.....	.....	.....
1937	36.9	27.2	.....	.....	.....	.....	.....	.....	.....	.....
1938	37.8	30.0	.....	.....	.....	.....	.....	.....	.....	.....
1939	25.8	15.0	.....	.....	.....	.....	.....	.....	.....	.....
1940	27.8	20.4	.....	.....	.....	.....	.....	.....	.....	.....
1941	25.0	20.0	.....	.....	.....	.....	.....	.....	.....	.....
1942	20.6	10.3	.....	.....	.....	.....	.....	.....	.....	.....
1943	15.3	17.2	.....	.....	.....	.....	.....	.....	.....	.....
1944	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

* State Department of Social Welfare. This table includes all cases financed by federal, state, and local funds except soldiers' relief. Expenditures for general relief, old age assistance, aid to dependent children, and aid to the blind represent assistance payments and administration costs; C.W.A. expenditures include all costs; and those for W.P.A. include only certified project employee wages.

† The Civil Works Administration was in operation from November, 1934, to April, inclusive. The monthly average is on a twelve-month basis.

‡ The Work Projects Administration was discontinued in April of 1943. The monthly average is on a twelve-month basis.

offset the rising level of living costs. With the leveling off of the old age case load and the availability of larger appropriations, it should be possible to maintain adequate assistance for the aged.

Financing

Table III shows that the average monthly case load of old age assistance increased from 15,398 in 1936 to a high of 92,520 in 1942, and then dropped to 89,472 in 1943. The state supervisor of social security attributed the reduction in the case load to the higher wages received by many families which made it possible to take care of their relatives, and to the employment of persons sixty-five years of age or over in private industry who were formerly unable to support themselves.¹⁸

Expenditures increased continuously from \$3.0 million in 1936 to \$26.2 million in 1943. For the fiscal year 1942-43 the average monthly case load was three thousand less than for the previous peak year, but owing to larger appropriations expenditures were increased over \$4 million.

Since 1936 the federal and state governments have participated in the cost of old age assistance. As is shown in Table IV, the state has paid slightly more than one-half of the cost. The Federal Government matches funds furnished by the state, and in addition grants 5 per cent of total matched funds for state administration. The state expenditures include those for burials which are not matched by federal funds.

AID TO DEPENDENT CHILDREN

Special provision was first made for assisting dependent children in 1913 when the Michigan Mother's Pension Law was enacted. This law authorized county probate courts to provide for assistance of mothers who were unable to furnish proper care for their children.¹⁹ During the depression of the nineteen-thirties, many of the counties were unable to continue mothers' pensions and it was not possible to obtain federal funds for this purpose because the law did not meet the requirements of the Social

¹⁸ *Mich. Social Welfare Comm. Biennial Rept.*, 1940-42, p. 35.

¹⁹ *P.A.*, 1913, No. 228.

Security Act. The State Emergency Relief Administration, which assumed the responsibility for a number of these cases, worked out a temporary plan in 1936 to obtain federal assistance for dependent children under the Social Security Act.²⁰

TABLE IV
EXPENDITURES FOR OLD AGE ASSISTANCE IN MICHIGAN
FROM FEDERAL AND STATE FUNDS*
1935-1943
(Thousands of Dollars)

Year Ending June 30	Federal†	State‡	Total
1934	.....	.....	.....
1935	.....	\$ 363	\$ 363
1936	\$ 1,445	1,523	2,968
1937	3,445	3,628	7,073
1938	7,279	7,668	14,947
1939	7,821	8,238	16,059
1940	8,045	8,391	16,436
1941	8,311	9,101	17,412
1942	10,627	11,213	21,840
1943	12,867	13,318	26,185

Percentage

1934	.....	.....	...
1935	.....	100.00	100
1936	48.69	51.31	100
1937	48.71	51.29	100
1938	48.70	51.30	100
1939	48.70	51.30	100
1940	48.95	51.05	100
1941	47.73	51.27	100
1942	48.66	51.34	100
1943	49.14	50.86	100

* *Mich. Social Welfare Comm.*, 1944.

† Includes federal grant to state for administration expenses. The amount furnished is per cent of total federal funds matched with state funds.

‡ Includes burial expenses which are not matched by federal funds.

²⁰ George F. Granger and Lawrence R. Klein, *Emergency Relief in Michigan, 1933-39* (Lansing: [Mich. State Emergency Welfare Relief Comm.] 1939), pp. 9-10; Cf. Mich. Emergency Relief Comm., *Monthly Bull. Public Relief Statistics*, Nov., 1936, p. 7.

In 1939 the Social Welfare Act was passed which provided for aid to dependent children under a state administered program to be financed jointly by the state and federal governments.

When state and federal funds became available for aid to dependent children, the county boards of supervisors gradually discontinued appropriations for mothers' pensions and allowed existing cases to be transferred to the state program. This transfer was hastened by a provision in the Probate Code of 1939 prohibiting the payment of mothers' pensions unless the county board of supervisors had made an appropriation for that purpose.²¹ By September, 1940, mothers' pensions apparently had been discontinued in all of the eighty-three counties.²²

Eligibility^{22a}

In order to qualify for aid to dependent children, the applicant must establish that the child or the mother has resided in the state for at least one year immediately preceding the date of application. In addition, it must be shown that the child has been deprived of parental support or care by reason of the death, continued absence from home, or physical or mental disability of either or both of the parents, and is living in a suitable home with one or more of the following relatives: father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, aunt, or uncle. The home in which the child lives must meet the standards of care and health determined by the State Bureau of Social Security. The child must be under sixteen years of age or under eighteen years if regularly attending school. By action of the Michigan Social Welfare Commission the restriction on the amount of personal property which a dependent child and parents may own and yet

²¹ *P.A.*, 1939, No. 288, Chap. XII, sec. 23.

²² Arthur Dunham, Spencer R. Gordon, Albert R. Renwick, Margaret F. Gordon, Edward Dalton, *Public Relief in Three Michigan Counties, The Report of a Study of Public Relief in Houghton, Antrim, and Hillsdale Counties, Michigan* (Detroit: Univ. Mich., Instit. Public and Social Admin., 1940), p. 57. (Study conducted under the auspices of the Brookings Institution, Washington, D. C.)

^{22a} *P.A.*, 1939, No. 280, sec. 56, as amended by *P.A.*, 1943, No. 208.

qualify for assistance was raised to coincide with that applicable to recipients of old age assistance.²³ The law provides that the probate court shall remain responsible for the care and protection of any dependent child who is not eligible for aid under the Social Welfare Law.

Benefits

The amount of assistance to be given to the family of a dependent child is determined by the County Bureau of Social Aid in accordance with the rules and regulations of the State Bureau of Social Security. In determining the amount of aid, consideration must be given to the circumstances surrounding the case, the resources of the family, and its necessary expenditures. The amount of aid to be given when added to the income and other support available to the child must be sufficient to provide "reasonable subsistence compatible with decency and health."²⁴ No maximum amount which the state will pay for the support of a dependent child has been established by law, but the amount which the Federal Government is obligated to furnish is limited to one-half of the amount spent by the state up to \$18 per month for the first child and \$9 for each additional child in the same family. The Michigan Social Welfare Commission establishes maximum amounts from time to time, which may be paid to families of varying sizes from state and federal funds. The following schedule was in effect as of February, 1944:²⁵

NUMBER OF ELIGIBLE CHILDREN IN FAMILY	MAXIMUM MONTHLY BENEFITS
1.....	\$50
2.....	59
3.....	68
4.....	77
5.....	86
6.....	95

In excess of 6, \$9.00 for each additional child.

The commission reported that funds distributed in 1942 accord-

²³ [Mich. Social Welfare Comm.], "New Factors Affecting Michigan's Social Security Programs," *Mich. Welfare Rev.*, 1 (1943): 9-11.

²⁴ *P.A.*, 1939, No. 280, sec. 56.

²⁵ *Mich. Bureau of Social Security* (Lansing), Nov. 20, 1944.

ing to the established schedule were not sufficient to meet the needs of the more destitute families, and these were compelled to apply for general relief. In order to provide more adequate benefits for dependent children, it was necessary for the commission to raise maximum benefit limitations substantially above those governing reimbursements allowed by the Social Security Act. The commission recommended that federal participation be increased and that sufficient state funds be appropriated to permit abolition of the maximum schedule and to place the payment of benefits on the basis of family budgetary needs.²⁶

The average monthly case load for dependent children increased from 7,715 families in 1937 to a high of 21,360 in 1942, and dropped to 13,656 in 1944.²⁷ According to the Michigan Social Welfare Commission, this decline in the case load reflects greater prosperity among the families with whom dependent children were living. The average payment per family increased from \$34.06 in 1937 to \$58.90 in 1944.²⁸ Michigan was third from highest in a list of nine comparable states in the monthly average payment per family for January, 1944.²⁹

Financing

The total annual expenditures increased from \$3.2 million in 1937 to \$11.4 million in 1942, and declined to \$10.7 million in 1943.³⁰ The cost of the program for aid to dependent children is shared by the federal, state, and local governments as indicated in Table V. For the period 1937-44 the state paid an average of 57.4 per cent of the cost, the Federal Government 35.4 per cent, and the counties 7.2 per cent. For this period there was little deviation from the average, but in 1944 the ratios changed to 68 per cent, 28 per cent, and 4 per cent, respectively, as the result of a substantial increase in the maximum monthly payments al-

²⁶ *Mich. Social Welfare Comm. Biennial Rept.*, 1940-42, p. 7.

²⁷ See Table III, p. 10.

²⁸ See Table III, p. 10.

²⁹ See Table I, p. 8.

³⁰ See Table II, p. 9.

lowed to families.³¹ The social welfare law permits any county to share the cost of the categorical aids. The state has offered to match supplementary funds contributed by any county for

TABLE V

EXPENDITURES FOR AID TO DEPENDENT CHILDREN IN MICHIGAN FROM
FEDERAL, STATE, AND LOCAL FUNDS*

1937-1944

(Thousands of Dollars)

Year Ending June 30	Federal†	State	Local	Total
1937	\$1,151	\$1,762	\$ 240	\$ 3,153
1938	1,877	2,875	391	5,143
1939	2,123	3,252	442	5,817
1940	2,707	4,687	459	7,853
1941	4,047	5,391	848	10,286
1942	4,276	6,126	1,009	11,411
1943	3,651	6,253	775	10,679
1944	3,002	6,648	489	10,139

Percentages

1937	36.5	55.9	7.6	100
1938	36.5	55.9	7.6	100
1939	36.5	55.9	7.6	100
1940	34.5	59.7	5.8	100
1941	39.4	52.4	8.2	100
1942	37.5	53.7	8.8	100
1943	34.2	58.5	7.3	100
1944	29.6	65.6	4.8	100
Average	35.4	57.4	7.2	100

* *Mich. Social Welfare Comm.*

† Includes federal grant to state for administrative expenses; the amount furnished is 5 per cent of total federal funds matched by state funds.

the support of dependent children, and many counties have taken advantage of this offer.³²

³¹ *State Dept. Social Welfare, Lansing, 1944.*

³² F. F. Fauri, Acting Director, Michigan State Department of Social Welfare and Supervision, Michigan Bureau of Social Security, Letter, dated March 22, 1945.

AID TO THE BLIND

Dependent blind persons were given special aid for the first time in 1936 when a temporary plan was set up by the State Emergency Welfare Relief Commission to take advantage of grants-in-aid provided by the Federal Social Security Act.³³ Prior to that year dependent blind were treated the same as other indigent persons, except for a limited number who were given training in the Employment Institute for the Blind. Under the temporary plan, responsibility for the administration was placed on the county emergency relief commissions subject to the supervision and policies of the State Emergency Relief Commission. The Social Welfare Act of 1939 provides financial assistance for the indigent blind, and as previously indicated, the administration of this service is centered in the State Bureau of Social Security which operates locally through county bureaus of social aid.

*Eligibility*³⁴

In order to be eligible for aid it must be established that the applicant is a person who (1) is blind or whose vision is so defective that with the aid of glasses he is unable to perform the ordinary activities for which sight is necessary, (2) is at least sixteen years of age, (3) has resided in the state at least five years of the nine years preceding the date of his application and one year immediately preceding his application, or lost his sight after having become a resident of the state, (4) is not receiving old age assistance, (5) is not an inmate of any municipal, county, state, federal, or private institution at the time of receiving aid or being maintained by any of these institutions,³⁵ (6) is not, because of his physical or mental condition, in need of continuous institutional care, (7) does not solicit alms during any period while receiving aid, (8) has not divested himself of any

³³ George F. Granger and Lawrence R. Klein, *op. cit.*, pp. 9-10. See p. 45 for a description and discussion of the rehabilitative and educational services for the blind.

³⁴ *P.A.*, 1939, No. 280, sec. 57.

³⁵ An inmate of any of the institutions listed may make application for aid but no payments may be made until the applicant is released.

property or income from property for the purpose of qualifying for assistance, (9) has not conveyed his property in consideration of receiving support to a person who is living and able to fulfill such obligation. Restrictions on the ownership of personal property are the same as for recipients of old age assistance.³⁶

Benefits

The Michigan Social Welfare Law has laid down no specific requirements controlling the amount of assistance to be paid to an indigent blind person. The Bureau of Social Aid determines the amount in accordance with rules and regulations issued by the State Bureau of Social Security. No maximum payment has been fixed by law, but the Federal Government will match state funds up to a maximum of \$40.00 per month.³⁷ The monthly average payment per case increased from \$22.65 in 1937 to \$32.55 in 1944.³⁸ In December of 1943, 30.3 per cent of the cases were receiving \$40.00 per month, and this percentage had probably increased slightly by June, 1944.³⁹ In January of 1944 Michigan ranked third from highest when compared with neighboring and other comparable states with respect to monthly average benefits.⁴⁰ Grants to blind persons are larger in the majority of cases than those to the aged because there is more complete dependency of the blind than is usually experienced by aged persons.

Beginning in 1942, the bureau agreed to pay from state funds a standard examination fee of \$5.00 to recognized ophthalmologists and to meet the costs incurred in transporting applicants to places of examination.

Financing

The monthly average case load increased steadily from 386 in 1937 to 1,358 in 1943 and then declined to 1,281 in 1944.⁴¹ The

³⁶ See p. 7.

³⁷ Social Security Act, Title X, sec. 1003a; *U. S. Code*, Title 42, Chap. 7, Subchap. X, sec. 1203.

³⁸ See Table I, p. 8.

³⁹ *Mich. Social Welfare Comm. Biennial Rept.*, 1942-44, p. 20.

⁴⁰ See Table II, p. 9.

⁴¹ *Ibid.*

large increases in the earlier years of this period may be attributed mainly to the transfer of cases from general relief to the categorical aids. Total annual state and federal expenditures for the needy blind increased from \$104,622 in 1937 to \$492,046 in 1943. These expenditures were shared equally by state and federal governments. The Michigan Social Welfare Commission reported in 1942 that appropriations for aid to the blind had been sufficient to cover only minimum subsistence and that no funds were available for corrective treatment.⁴² In 1943 additional funds were made available for treatment of blind persons whose vision may be restored or improved. In 1944 the average monthly payment to the blind was 10 per cent higher than that for 1942.

GENERAL RELIEF

The term general relief as used in this study includes outdoor relief, indoor relief, and work relief, and excludes soldiers' relief and the federally aided categories consisting of the aged, dependent children, and the blind.⁴³ Outdoor relief consists of cash or kind disbursements to indigent families living in their homes to cover the cost of food, clothing, shelter, and medical attention. Indoor relief provides indigents with care and treatment in an institution. Work relief is the furnishing of assistance to persons on the basis of need in the form of wages paid for work on projects financed from public funds. Administration and financing of general relief have been considered in another Bureau of Government publication, and will be reviewed here briefly for the purpose of indicating its relation to the scheme of social security in Michigan.⁴⁴

⁴² *Mich. Social Welfare Comm. Biennial Rept.*, 1940-42, p. 8.

⁴³ General relief as defined above should be distinguished from the term "direct relief" as used in the reports of the Michigan Social Welfare Commission. The latter term includes relief described in the law as "unemployment relief and poor relief, including medical care other than hospitalization, and relief for destitute persons lacking residence." The state aids in financing these forms of relief but the counties determine eligibility, form, and amount granted, *P.A.*, 1939, No. 280, sec. 55a. General relief includes direct relief and, in addition, the maintenance of infirmaries and adult hospitalization, which are financed entirely from local funds.

⁴⁴ Frank M. Landers and Claude R. Tharp, *Administration and Financing of Public Relief* (Ann Arbor: Univ. Mich. Bur. Govt., 1942).

SUMMARY OF DEVELOPMENT

Prior to 1931 local governmental units and private charitable agencies were almost the exclusive sources of public relief for indigent persons. Inasmuch as these agencies were unable to meet emergency demands during the depression of the 1930's it was necessary for the Federal Government to assume a large part of the responsibility for this service.

The period, 1931-39, was one of rapid change and experimentation in the organization of public relief. The first important change was the creation of the State Unemployment Commission in 1931, to co-ordinate relief activities throughout the state. The next year the Federal Government participated in financing public relief by making loans to the state. In 1933 it was necessary to make federal grants to the state for relief, and a state relief administration was organized to administer these funds. The Federal Government, in 1935, abandoned the policy of granting funds for all types of relief, and initiated a work program designed mainly for the relief of employable workers; in addition, it undertook a new program of federal grants-in-aid for public works and the categorical aids. As a result of these changes state and local governments were left entirely responsible for general relief. Between 1935 and 1939 there was a division of opinion and state policy was not settled regarding the organization for administering general relief. Local governments demanded a greater voice in the policies and administration of the program when faced with the necessity of bearing a greater portion of the financial load.

The Social Welfare Act of 1939 continued the administration of the categorical aids at the state level, but responsibility for the administration of general relief was divided between the state and local governments. This represented a compromise between two groups holding opposite points of view. One of these groups favored control over the policies and administration by an integrated state department of social welfare, and the other advocated local control with only limited powers of administration vested in the state department. The latter policy

was favored by the legislature and became a part of the new law.

ADMINISTRATION

Under the Social Welfare Act of 1939, as amended, general relief is supervised on the state level by the Social Welfare Commission through a division designated in practice as the State Department of Social Welfare. A second division of the commission, the Bureau of Social Security, as explained previously, is responsible for the administration of the categorical aids. These divisions were organized originally to operate independently of each other with separate heads, except that they had joint service departments for personnel, research and statistics, information service, and accounting. In 1945 the law was amended permitting the commission to appoint one executive to head both divisions and to have the title of director of the Department of Social Welfare.

The principal functions of the State Department of Social Welfare in the administration of general relief are to allocate state funds to the counties to assist them in financing relief; to exercise general supervision over general relief; to supply forms and devise procedures to be used by the counties in reporting expenditures; to collect reports and maintain records; and to arbitrate disputes among the counties relative to legal settlement.

The Social Welfare Act of 1939 provided for the creation of a county social welfare board at the local level to administer relief services. This board functions through a county department of social welfare. In a single county the board consists of three members, two of whom are appointed by the county board of supervisors and one by the Michigan Social Welfare Commission, except in Wayne County where one member is appointed by the county board of supervisors, representing local units outside Detroit, a second by the board of county auditors, and a third by the Michigan Social Welfare Commission. Two or more counties may establish a district board of social welfare, one of which is appointed by the Michigan Social Welfare Com-

mission and two by the board of supervisors of each county within the district.⁴⁵ Cities of more than 300,000 population (Detroit) may create and operate a city department of social welfare separate from that of the county.

County or district social welfare boards have complete and final jurisdiction over the form, granting, and amount of general relief to applicants. The county department administers infirmaries (almshouses) under the general supervision of the State Department of Social Welfare, except in Wayne County where the infirmary is controlled by the Wayne County Board of Institutions, composed of five members, three of whom are appointed by the County Board of Supervisors and two by the Board of County Auditors. The county department is also responsible for the hospitalization of dependent, afflicted adults.

As has been pointed out in a previous study of the Bureau of Government, the Social Welfare Act passed in 1939 permits wide variation in the organization for administering public assistance on the local level. The act merely provides that a director of the county department of social welfare may be appointed by the county board of social welfare. Under this provision boards in a few counties have elected not to appoint a director and the members engage directly in administrative activities on a full-time salaried basis. In many counties a member of the board serves as director. Under such organization members of the board are permitted to serve in the dual capacity of determining policy and carrying out their own decisions as administrative employees. In a number of counties the board appoints a nonmember as a director and in this manner separates the policy forming and ministerial duties of the department.

Various degrees of integration of public relief administration exist in the organization of county departments of social welfare. First, a county department of social welfare may be established, headed by one executive with a single staff who administers both general relief and the categorical aids. Under this plan

⁴⁵ To date (Jan. 1, 1945) no district departments of social welfare have been organized.

the entire staff, including the executive head, would be selected under state civil service. Even this plan would not be complete integration inasmuch as soldiers' relief is administered by an independent local commission.

A second plan of organization permitted under the law is a partially integrated department with a single head selected under state civil service to administer both general relief and the categorical aids with the aid of two separate staffs. One staff, approved by the county department of social welfare, administers general relief, with the exception of soldiers' relief; the other, selected under state civil service, is responsible for the categorical aids.

A third type, and the one in most general use, consists of two entirely separate agencies one of which is headed by a director of social welfare who administers general relief, except soldiers' relief, with a staff approved by the county board of social welfare, and the other by a supervisor of social aid who administers the categorical aids with a staff selected under state civil service.

ELIGIBILITY AND BENEFITS

The Social Welfare Act charges the county department of social welfare with the duty of furnishing general relief to any indigent person within the state.⁴⁶ Nonresidents, however, are entitled to only temporary emergency relief, and if no other funds are available for this purpose, the department may pay transportation expenses of such person to the state or county of his residence. Veterans and persons entitled to categorical relief may obtain temporary aid while establishing their eligibility for special types of assistance.

County departments of social welfare are authorized by law to furnish infirmary service for indigent persons who, because of chronic disability or infirmity of age, require institutional care. Sixty-eight of Michigan's eighty-three counties maintained such infirmaries in 1944.⁴⁷ It is the duty of the Department of

⁴⁶ Work relief may be furnished by the county department of social welfare.

⁴⁷ *Mich. Social Welfare Comm., Biennial Rept., 1942-44*, pp. 28, 40.

Social Welfare to inspect county infirmaries with a view to promoting "proper, efficient, and humane administration." Inspections are made on an average of once each year, and after each inspection the state department makes a report to the county department of social welfare containing its recommendations of improvements deemed necessary and indicating whether minimum requirements have been met. The state department is empowered to institute legal proceeding to enforce its recommendations.

In addition to infirmary service, hospitalization is provided for indigent, afflicted adults who would remain public charges, or who may become dependent upon the county unless given treatment requiring special skill and facilities. The afflictions mentioned in the law as qualifying persons for hospitalization are severe physical injury, acute disease, or physical injury requiring a major operation, and pregnancy in the absence of financial ability to meet the expenses of surgical and medical treatment. This service excludes hospitalization of the tubercular, insane, feeble-minded, epileptic, venereally infected, and those suffering from dangerous communicable diseases.

Beginning in 1935, several congregate shelter camps for needy single or unattached persons were established in different cities of the state. Because of improved economic conditions, the number of shelter camps has been gradually reduced so that, by 1944, the State Department of Social Welfare was operating only two men's camps. In these camps, as well as on county farms operated in connection with infirmaries, able-bodied recipients of relief are permitted to work to the extent they are able.

From 1937 to 1941 the general relief average monthly payment remained at about \$22; subsequently the average rose steadily and by 1944 it had increased to \$29.94.⁴⁸ Michigan has been fairly liberal in its allowance of general relief as compared with the neighboring and other comparable states shown in Table II. Of the nine states compared, Michigan was exceeded only by Illinois, California, and New York.⁴⁹

⁴⁸ See Table I, p. 8.

⁴⁹ See p. 9.

FINANCING

The county pays the entire cost of infirmaries, adult hospitalization, and local administration of general relief, and the state guarantees to each county sufficient funds to meet at least 50 per cent of the balance of relief costs. The state may assume more than 50 per cent or even the entire burden in counties where relief needs are disproportionately heavy in relation to their financial resources. It may be seen from Table VI that for the twelve-month period ending March 31, 1944 the state paid 50 per cent of the relief costs in sixty-four counties. In the remaining nineteen counties the range was from 60 per cent in two counties to 95 per cent in one county.⁵⁰ In determining the amount of funds to be allocated, the Michigan Social Welfare Commission is required by law to take into consideration the need and fiscal capacity of the county. Need must be established by the experience of the county during the previous year; fiscal capacity is determined on the basis of financial resources during the preceding year.

TABLE VI
APPORTIONMENT OF GENERAL RELIEF FUNDS IN MICHIGAN
TO STATE AND COUNTIES*

November 1, 1943 to March 31, 1944

Number of Counties	Percentage Paid by County	Percentage Paid by State
64†	50	50
2	40	60
5	25	75
4	20	80
4	15	85
3	10	90
1	5	95

* *Mich. State Dept. of Social Welfare.*

† The City of Detroit, which constitutes a department of social welfare separate from the county, is on a 50-50 basis.

Net expenditures for county infirmaries for the fiscal year ending June 30, 1944 amounted to \$1,255,637.⁵¹ The State De-

⁵⁰ *Mich. State Dept. of Social Welfare*, Lansing, Michigan.

⁵¹ *Mich. Social Welfare Comm., Biennial Rept.*, 1942-44, p. 30.

partment of Social Welfare has estimated that for the fiscal year 1943-44 \$2,745,836 was spent by counties for hospitalization of afflicted adults in private and public hospitals other than infirmary units and that \$917,849 was paid for this service in hospital units, wings, or wards of county infirmaries, making a total of \$3,663,685.⁵² The Michigan Social Welfare Commission has recommended that the law be amended to permit the use of state funds for the hospitalization of afflicted adults. Under the present law state funds can be used to provide medical care only when the patient remains in his home, and, because of this situation, afflicted adults in certain poor counties are unable to obtain necessary treatment in a hospital or institution.

The annual amount spent by the state and local governments for general relief has fluctuated considerably since 1930 owing to changes in economic conditions and governmental policies. Since 1929 the cost has risen sharply with the result that in 1932 it was necessary for state and local governments to borrow from the federal government to supplement local funds. By 1933, as already mentioned, local revenues were no longer adequate to meet the increasing demands for relief, and the Federal Government decided to participate directly in the financing and administering of this function. By the end of the fiscal year 1933-34, as shown in Table VII, 68 per cent of general relief was being financed by federal grants. For the fiscal year 1934-35 this percentage increased to 71.9 per cent. After 1936 federal grants were no longer available for general relief.

The monthly average case load for the fiscal year 1933-34 was 131,875 and expenditures amounted to \$29.6 million.⁵³ During the same year, the monthly average case load carried by work relief programs was 94,930 involving expenditures of \$60.3 million. General relief reached an all-time high for the fiscal year 1934-35 with an average case load of 165,961 and expenditures amounting to \$45.6 million.

The Works Progress Administration (W.P.A.) began operations in November, 1935, and many general relief cases were

⁵² *Ibid.*

⁵³ See Table III, p. 27.

TABLE VII
FEDERAL, STATE, AND LOCAL EXPENDITURES FOR GENERAL RELIEF*
1934-1943
(Thousands of Dollars)

Fiscal Year Ending June 30	Federal	State	Local†	Total
1934	\$20,154	\$ 7,635	\$ 1,805	\$29,594
1935	32,795	6,887	5,930	45,612
1936	16,203	8,177	5,793	30,173
1937	.....	13,798	7,345	21,143
1938	.....	21,305	11,729	33,034
1939	.....	15,477	7,393	22,870
1940	.....	9,490	11,201	20,691
1941	.....	7,480	9,738	17,218
1942	.....	5,748	7,794	13,542
1943	.....	3,731	5,339	9,070

Percentages

1934	68.1	25.8	6.1	100
1935	71.9	15.1	13.0	100
1936	53.7	27.1	19.2	100
1937	....	65.3	34.7	100
1938	....	64.5	35.5	100
1939	....	67.7	32.3	100
1940	....	45.9	54.1	100
1941	....	43.4	56.6	100
1942	....	42.4	57.6	100
1943	....	41.1	58.9	100

* Mich. State Dept. of Social Welfare.

† Does not include expenditures for soldiers' relief.

transferred to that program. As a result of this change in policy the average case load for general relief dropped to 109,454 and expenditures declined to \$30.2 million. A sharp increase occurred in the case load within the fiscal year 1937-38 as a result of a sudden business recession. The number of cases rose from a level of 37,530 in September, 1937, to 161,210 in March, 1938, an increase of 330 per cent in six months; the average case load increased to 95,986 and expenditures rose to \$34.6 million. The Works Progress Administration (W.P.A.) began to assign em-

ployable persons to the work program from the outset of the recession with the result that in August, 1938, this agency was carrying a peak load of two hundred thousand workers. The general relief load began to decline toward the end of March and by August it was down to one hundred thousand cases. Probably no better example could be cited of the possibilities of a flexible work program in the management of a sudden expansion in the volume of unemployment than was afforded in Michigan during the business recession.

The fiscal year 1938-39 witnessed a substantial decline in the expenditures and average case load carried by the general relief program. By 1942-43 the average case load had declined to 21,209 which was 75 per cent below that for year 1938-39; expenditures dropped to \$9 million, a reduction of 62 per cent.

The all-time high for the several types of public assistance including work relief cases occurred in the fiscal year 1938-39 when the total monthly average rose to 324,307 and expenditures to \$151.8 million. By 1942-43 the average case load had dropped to 138,233 and expenditures to \$52.6 million, a decline of 57 per cent and 65 per cent, respectively, from the peak year.

The work relief program was the largest single factor responsible for the decline in general relief in the period from 1936 to 1941. A second influence of this period was the increased expenditures for the categorical aids. During 1942 and 1943 the dominating influence causing a reduction in general relief rolls was the demand for workers in wartime industries.

The Work Projects Administration, successor to the Works Progress Administration, was liquidated in June 1943. For the six months' period preceding the liquidation date, only 869 persons applying for general relief based their claims on the loss of W.P.A. employment. This was a much smaller number than had been predicted by many local officials. It is probable that the majority of these applicants were handicapped by physical disabilities or infirmities of age which restricted their employment opportunities.

SOLDIERS' RELIEF⁵⁴

Public assistance in the form of soldiers' relief, was first authorized by general law in 1899.⁵⁵ This act as amended provides that any county may furnish relief for the following classes of veterans and dependents: (1) honorably discharged indigent soldiers, sailors, marines, and women's auxiliaries of all wars and military expeditions in which this country has participated, (2) indigent wives, widows, mothers, and minor children of such indigent or deceased veterans, and (3) indigent wives and children of soldiers, sailors, and marines, and the indigent children of nurses and women's auxiliaries before their discharge from service in World War II and during its continuance.

The probate judge is charged with the duty of appointing a soldiers' relief commission consisting of three residents of the county. At least two members of the commission must be honorably discharged soldiers, sailors, or marines of the United States Army or Navy, one of whom served in the Spanish-American War and the other in World War I. As of January 1, 1945, seventy five commissions had been created, but of this number five reported little or no activities. The county social welfare board has no control over soldiers' relief, but the law vests in the State Department of Social Welfare the power of direction and control of soldiers' relief commissions. The state department has exercised but slight supervision over the commissions. Upon request of the department, commissions report their expenditures and field representatives maintain some contact with them.⁵⁶

The law does not describe the nature of relief to be furnished to veterans and to meet this deficiency the Michigan Soldiers' Relief Association was organized in 1941. The association

⁵⁴ The statistical data relative to soldiers' relief presented in this section was furnished by F. F. Fauri, Acting Director, Mich. State Dept. of Social Welfare, Letter, dated January 30, 1945. See p. 114 for summary and conclusion covering soldiers' relief.

⁵⁵ C.L., 1929, sec. 854, *et seq.*; as last amended by P.A., extra session, 1944, No. 23.

⁵⁶ F. F. Fauri, Letter, Jan. 30, 1945.

adopted a constitution regulating the administration of relief in accordance with state and federal laws.⁵⁷ In some counties the Soldiers' Relief Commission furnishes rehabilitative services to veterans, and assists them in maintaining relations with the State Veterans Administration and in obtaining federal hospitalization.

The county board of supervisors has power to levy a special tax for soldiers' relief. The amount that may be levied is within the discretion of the county board of supervisors up to the legal limit, which must not exceed one-tenth of one mill on each dollar of assessed valuation except in cases of emergency when it may be raised to two-tenths of one mill. Appropriations reported by the commissions for 1945 ranged from \$150 in Montmorency County to \$10,620 in St. Clair County.

⁵⁷ Emil E. Gansser, President, Michigan Soldiers' Relief Association, Letter, dated January 26, 1943 (Grand Rapids).

II

WELFARE SERVICES FOR CHILDREN AND HANDICAPPED PERSONS

CHILD WELFARE

CHILD WELFARE includes a group of related services for the care, protection, and well-being of children. The main objective of these services is to provide a home or environment which will permit the child to lead a normal life, and to develop his abilities to the greatest possible extent. The administration and financing of the several types of child welfare will be examined in the following sections.

MICHIGAN SOCIAL WELFARE COMMISSION¹

The Social Welfare Act provides that it shall be the duty of the State Department of Social Welfare "to assist in the development of sound programs and standards of child welfare by public organizations throughout the state; to co-operate with private child welfare organizations in programs mutually agreed upon; and to provide a service of consultation and assistance to the juvenile probation service of the probate courts. . . ."²

A children's division headed by a supervisor has been created within the State Department of Social Welfare to administer certain child welfare services.

Field Consultants

One of the important services furnished by the children's division is consultation by trained specialists with public officials and agencies responsible for child welfare, including probate judges, county agents, public schools, and county departments of social welfare. This service has been expanded in recent years to meet the problems growing out of dislocations in home conditions incident to the war. Consultations held relate mainly to child delinquency, dependency, neglect, illegitimacy, and

¹ *Mich. Social Welfare Comm., Biennial Rept.*, 1940-42; 1942-44.

² *P.A.*, 1939, No. 280, sec. 14c.

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¹ *Mich. Social Welfare Comm., Biennial Rept.*, 1940-42; 1942-44.

² *P.A.*, 1939, No. 280, sec. 14c.

adoptions. The larger proportion of these consultations are with the public schools, probate judges, and county agents. For the quarter ending June 30, 1943, 26 per cent of the problems with which consultants were concerned involved dependency, 25 per cent related to delinquency, 16 per cent to neglected children, 7 per cent to illegitimacy, and the remaining 26 per cent to miscellaneous questions pertaining to child welfare. Included also in the duties of consultants is the furnishing of information to local communities relative to the various services available to children with physical, mental, and emotional problems, and assistance in arranging for such services when needed. In 1944 there were eight consultants employed by the division.

County Children's Service

The children's division furnishes trained child welfare workers to counties. This service is given only when requested by some local public agency and where it is clearly indicated that the child welfare program will be actively supported. As of November 1, 1944 thirty-one children's workers had been placed in twenty five counties and as of June 30 of the same year, 1,076 children were receiving service. Counsel and referral services are now available in the children's service for those affected with venereal diseases. This feature is operated in co-operation with the new rapid treatment centers recently established in the state.

County children's services are financed in part by the Federal Government under Title V, Part III of the Social Security Act which provides that federal funds allotted to the states "shall be expended for payment of part of the cost of district, county, and other local child welfare services in areas predominantly rural and for developing future service for the encouragement and assistance of adequate methods of community child welfare organization in areas predominantly rural and other areas of special need." The federal-state program is conducted on a basis of plans developed by the Michigan Social Welfare Commission in co-operation with the Children's Bureau of the United States Department of Labor.

Supervision of Child Care and Placement

The children's division is charged with the duty of investigating and licensing annually all child welfare agencies and boarding homes. The division holds conferences and carries on correspondence with child caring and placing agencies for the purpose of assisting and encouraging them in maintaining proper standards. As a wartime service the division has assisted local communities in creating and maintaining day care for children of mothers employed in industry. Particular interest has been taken in community education, privately operated day-care centers, and the establishment of foster day care. Local day-care committees have been organized to consider service problems involving the education and care of children, and to plan methods of meeting them. At present district field consultants are responsible for community organization of day care.

In addition to the above service the division has been assigned the duty of inspecting county juvenile detention homes. Standards have been developed for the care of children in detention homes approved by the State Probate Judges' Association, and these are made available for the guidance of local officials. There is a growing tendency to use selected boarding homes for the detention of children. In the opinion of the Michigan Social Welfare Commission this practice not only produces better results, but is less expensive. The duty of inspecting juvenile detention homes has been assigned to field consultants in their respective districts.

It requires an investigation and approval by the State Department of Social Welfare before a child-placing agency of another state can place a child in Michigan, and arrangements must be made for supervision following such placement. Child welfare agencies and county agencies in Michigan co-operate in bringing about prompt disposal of referrals of children from other states.

The children's division endeavors to improve the standards for adoption of children by studying home investigations reported by county agents and through children's consultants

who confer individually with probate judges and county agents. Special attention is given to children born out of wedlock in maternity homes and hospitals.

FINANCING

Expenditures for the special child welfare services from state and federal funds described in the above and subsequent sections are shown in Table VIII. The cost of consultant services to child welfare workers is met largely from federal funds. In the period 1939-43 total annual expenditures increased nearly \$30,000. In future years expenditures for county agents will be much larger as the result of an act passed in 1944 requiring counties of 30,000 population or more to employ full-time agents.

TABLE VIII
EXPENDITURES FOR CHILD WELFARE SERVICES FROM
STATE AND FEDERAL FUNDS*
1939-1943†

Service	1939	1940	1941	1942	1943
Investigation and administration of child welfare services.....	\$28,804	\$32,919	.....	.....	.....
County agents' salary and expenses...	80,903	80,799	\$81,349	\$80,861	\$88,717
Consultants' service	.....	.....	42,406	47,992	47,548
Transportation of children to private institutions.....	.....	848	178	1,191	709
Service to children of working mothers	.....	.....	.....	.....	2,652
Totals.....	\$109,707	\$114,566	\$124,023	\$130,044	\$139,626

* Michigan Auditor-General, *Financial Reports*, 1939-43.

† Federal grants were received by the state to assist in carrying on a child welfare program authorized by Title V, Part III, of the Social Security Act as follows: 1939, \$30,626; 1940, \$25,126; 1941, \$42,449; 1942, \$35,706; 1943, \$46,265.

JUVENILE INSTITUTE COMMISSION

The Juvenile Institute Commission is responsible for the operation and supervision of the Michigan Children's Institute located at Ann Arbor, the Boys' Vocational School at Lansing, and the Girls' Training School in Adrian. The commission consists of five members appointed by the governor with the consent of the senate for staggered terms of five years. Although the commission is legally within the Department of Social Welfare, it operates independently and is responsible only to the governor.

Michigan Children's Institute³

Michigan has provided for the care of normal, dependent, and neglected children since the establishment of the State Public School at Coldwater in 1874. In 1935 this school was succeeded by the Michigan Children's Institute located in Ann Arbor.⁴ The services furnished by the latter include home finding, child care and supervision, and child study and observation. A child under fourteen years of age of sound mind and body may be admitted to the Michigan Children's Institute by order of the juvenile court if it can be shown (1) that such child has been abandoned by the parents or persons in parental relationship or is otherwise without proper custody and guardianship, or (2) that the child's home is not a fit environment because of neglect, cruelty, drunkenness, or depravity on the part of the parents or persons in parental relationship. When admitted the child remains the ward of the state until nineteen years of age unless, before reaching this age, such child is legally adopted, restored to parents, is married, or becomes self-supporting.

The home finding department investigates and recommends prospective boarding homes for children who have been admitted to the institute. Facilities at headquarters of the institute in Ann Arbor are used only temporarily while homes are

³ Michigan Children's Institute, *Report on History and Organization* (undated mimeographed memorandum); *ibid.*, *Statistical Report as of July 1, 1941* (undated mimeographed rept.); *P.A.*, 1935, No. 220, as last amended by *P.A.*, 1943, No. 207; *P.A.*, extra session, 1944, No. 54.

⁴ *P.A.*, 1935, No. 220.

being found. The department endeavors to select homes which assure the child a normal home life and which offer the best possible opportunity for adjustment and future development. When individual families offer free adoptive homes, the investigation is made by the county agent of the county in which the homes are located, and foster parents if accepted are required to enter into an agreement with the institute. Boarding homes are licensed by the State Department of Social Welfare and recommended by the home finding department of the institute or county agent. One to three wards may be placed in the same home, depending upon the size of the family and how well the individual child becomes adjusted to the group. On July 1, 1943, there were 1,008 children under the care of the institute, 630 of whom were in boarding homes and 378 in free adoptive homes.⁵

The department of child care and supervision, through its children's counselors, assists in placing the child in a home, sees that he becomes adjusted to the new environment, and advises with the foster parents with respect to the child's care.

The institute is required by law to make studies of children referred to it by the judge of probate. The observation period ordered by the probate judge may not exceed thirty days except that upon the recommendation of the superintendent of the institute, it may be extended to one year. At the end of the observation period the superintendent submits an opinion to the probate judge on the best method of caring for the child.

The Michigan Children's Institute is financed by the state. It is shown in Table IX that the average number of children supported by the institute rose from 488 in 1937 to 606 in 1943, representing an increase of 24 per cent. In the same period expenditures increased from \$192,077 to \$249,693, or nearly 30 per cent. The per capita daily expenditure for 1937 was 86 cents and by 1943 it had risen to \$1.13. In 1944 the legislature made a special appropriation of \$115,000 for the use of the institute in finding foster homes for the 250 children on its waiting list. The amount paid to the boarding parents for the

⁵ C. F. Ramsey, Supt., Mich. Children's Institute, *Letter*, Feb. 2, 1944.

care of a child varies; in 1944 the average was about \$20 per month. The Institute pays for medical care of the child, but if adequate service cannot be obtained locally he is sent to the University of Michigan Hospital at Ann Arbor.⁶

TABLE IX
EXPENDITURES BY MICHIGAN CHILDREN'S INSTITUTE*
1937-1943

Fiscal Year Ending June 30	Amount	Average Number of Children	Daily Per Capita Expenditure
1937	\$192,077	488	\$0.86
1938	236,845	556	0.93
1939	218,406	555	0.96
1940	205,939	567	0.96
1941	199,682	570	0.96
1942	221,460	587	1.03
1943	249,693	606	1.13

* Michigan Auditor-General, *Financial Reports*, 1937-43.

Boys' Vocational School and Girls' Training School

Michigan has provided for the care and education of delinquent boys and girls since the founding of the House of Correction for Juvenile Offenders in 1865. This institution has been designated successively as the State Reform School, the Michigan Industrial School for Boys, and finally in 1925 as the Boys' Vocational School.⁷ The first separate school for delinquent girls was established in 1879 and was known as the Reform School for Girls; its name was changed to Girls' Training School in 1925.⁸

Any boy from twelve to sixteen years of age, inclusive, may

⁶ *Op. cit.*, C. F. Ramsey.

⁷ *C.L.*, 1929, secs. 17802, 17815-38, as last amended by *P.A.*, extra session, 1944, No. 10.

⁸ *C.L.*, 1929, 17833-38, 17840-43, 17845-57, as amended by *P.A.*, extra session, 1944, No. 12; Cf. Aneta B. Truman, Superintendent, *Information Regarding Girls' Training School*, Adrian (undated typewritten memorandum).

be committed by the probate court to the Boys' Vocational School at Lansing if it can be shown that he has committed one or more of the following acts: (1) repeatedly associates with immoral persons or frequents places used for illegal purposes; (2) wilfully and repeatedly violates school rules and regulations or fails to attend school as required by law; (3) deserts his home without sufficient cause or is repeatedly disobedient to the reasonable and lawful commands of his parents, guardian, or other custodian; (4) habitually violates federal, state, or municipal laws; or habitually idles away his time. Before admitting any boy to the school he must be given an examination and the fact established that he is free from any mental or physical defect that would be a menace to those already enrolled.

Girls from twelve to sixteen years of age, inclusive, may be committed to the Girls' Training School at Adrian by order of the juvenile division of the probate court. The grounds for committing a girl to the school are substantially the same as those listed above for boys except that the law does not provide that she may be committed because of habitual idleness. Before any girl may be admitted to the school, she must be examined and found not to be pregnant and free of any mental or physical defect that would be a menace to girls already in attendance at the school. Girls can be held in the school until they are nineteen years of age, but they may be released at the discretion of the Juvenile Institute Commission before reaching that age. A girl seventeen years of age or over who proves to be wholly incorrigible may be returned to the public authorities of the county from which she came. Any home in which a paroled or discharged girl accepts employment must be approved by the State Department of Social Welfare, the school's parole officer, or some person appointed by the school. Girls on parole are supervised by county agents even when living in their own homes.⁹

The law provides that the Juvenile Institute Commission in conjunction with the Superintendent of Public Instruction shall prescribe a course of study in both the Girls' Training School and the Boys' Vocational School similar to that given in the

⁹ Aneta B. Truman, *op. cit.*

public schools through the twelfth grade. It is the duty of the commission to provide the necessary instruction and equipment to train boys and girls for useful occupations. Boys may be formed into a cadet corps for "gymnastic, athletic, and military training." Girls receive training in useful arts, including domestic science.

As indicated in Table X the average number of boys in residence at the Boys' Vocational School at Lansing declined from 554 in 1939 to 352 in 1943. For the first ten months of the fiscal year ending in 1944 the average had risen to 411. For the period 1939-43 the average number of boys on parole varied from a low of 226 in 1941 to a high of 363 in 1943. The annual expenditure for the same period ranged from \$267,598 in 1940 to \$338,741 in 1942 and averaged \$293,060 per year.

TABLE X

AVERAGE NUMBER ENROLLED IN SCHOOLS FOR DELINQUENT
CHILDREN, AND EXPENDITURES*

1939-1943

(The state schools for children at Lansing and Adrian are financed entirely from state funds.)

Fiscal Year Ending June 30	Boys' Vocational School (Lansing)				Girls' Training School (Adrian)			
	Average Number in Residence	Average Number on Parole	Total	Ex- pendi- tures†	Average Number in Residence	Average Number on Parole	Total	Ex- pendi- tures‡
1939	554	308	862	274,546	255	230	485	163,962
1940	515	285	800	267,598	235	239	474	155,900
1941	454	226	680	276,769	232	211	443	153,017
1942	407	331	738	338,741	219	186	405	180,554
1943	352	363	715	307,645	245	188	433	174,008
1944†	411	....	....	.....	269	...	...	.....

* Number of pupils enrolled furnished by the Michigan Juvenile Institute Commission, Letter dated June 12, 1944; expenditures are from the annual *Financial Reports* of the Auditor-General of Michigan.

† For first ten months of fiscal year.

‡ Includes expenditures for conveying pupils to the school.

The average number of girls in residence at the Girls' Training School at Adrian declined from 255 in 1939 to 219 in 1942, and rose to 269 by the end of the first ten months of the fiscal

year ending in 1944. The average number of girls on parole ranged from 230 in 1939 to 188 in 1943. Expenditures ranged from \$153,017 in 1941 to \$180,554 in 1942 and then dropped to \$174,008 in 1943.

Special appropriations were made for the fiscal year 1944-45 to launch a foster home program for boys and girls who show promise of benefiting from foster home placement.

THE JUVENILE DIVISION OF THE COUNTY PROBATE COURT¹⁰

The Juvenile Division of the Probate Court is presided over by the county judge of probate who is elected for a term of four years. The responsibilities of the probate judge, with respect to children, involve both judicial and administrative functions. The law provides that "each child coming within the jurisdiction of the court shall receive such care, guidance, and control, preferably in his own home, as will be conducive to the child's welfare and the best interests of the state. . . ." The probate judge has exclusive jurisdiction over children under seventeen years of age who have violated any law or where the following circumstances exist: (1) parents or guardians refuse or neglect to furnish proper support, education, medical and surgical treatment, or other necessary service, (2) children have been abandoned by parents or guardians and are without proper custody or guidance, (3) home environment is unsuitable because of neglect, cruelty, drunkenness, criminality, or depravity on the part of the parents or guardians, and (4) the mother is unmarried and without adequate means of support. The law gives the juvenile court and the circuit court concurrent jurisdiction over children seventeen and eighteen years of age who are found committing certain acts or living under conditions that are detrimental to their welfare or may lead to delinquency. Parents or persons in parental relationship may be brought under the jurisdiction of the juvenile court when necessary to protect the welfare of children. The juvenile court has jurisdiction over children under nineteen years of age who are affected by the divorce proceedings of parents and jurisdiction has been waived by a court of chancery.

¹⁰ *P.A.*, extra session, 1944, No. 54.

COUNTY AGENT

The county agent, who is appointed by the governor upon recommendation of the probate judge or judges performs various child welfare services, working in co-operation with different state and local agencies. He is declared by law to be an officer of the juvenile division of the probate court, and must serve under the general supervision of the probate judge and at his pleasure. In counties of less than 30,000 population the county agent may be a part-time employee and must be paid on a per diem basis; in counties of 30,000 population or over he is a full-time employee and is allowed an annual salary determined according to the population of the county in which he serves. In either event his entire salary is paid by the state. The county agent organizes, directs, and develops the child welfare work of the juvenile division when authorized by the judge; supervises children released from public institutions or agencies when requested by the executives in charge; visits the wards of the Michigan Children's Institute upon request of the superintendent; makes investigations and reports on children or families when requested by the State Department of Social Welfare or the superintendent of any state institution; carries on child welfare work among children of school age in co-operation with the proper school officials; and performs any other child welfare service that may be requested by the probate judge.¹¹

COUNTY BOARDS OF SOCIAL WELFARE

County Boards of Social Welfare are charged with the responsibility of assisting in the development of sound programs and standards of child welfare, and promoting programs and policies for the prevention of dependency, neglect, delinquency, and other conditions adversely affecting the welfare of families and children. To date little progress has been made in attaining these objectives. The board is further required, when requested by the probate court, to investigate and follow up cases pertaining to the protection and guidance of children under the jurisdic-

¹¹ *P.A.*, extra session, 1919, No. 22, as last amended by *P.A.*, 1945, No. 93; *P.A.* extra session, 1944, No. 54.

tion of the probate court.¹² This provision has not operated as intended, for probate judges seldom call upon the county boards for assistance in dealing with child welfare problems.

REORGANIZATION OF THE CHILD WELFARE SERVICES

There has been a growing consciousness of the need for strengthening and co-ordinating the child welfare services. This need has been expressed by four different Michigan studies. The State Civil Service Commission, in a report to the governor on the organization of the Michigan Social Welfare Commission, made the following statement:

It is impossible for the state to conduct a co-ordinated and efficient child welfare program when five different agencies conduct its several parts. It might be urged that the governor is in a position to co-ordinate these different activities. However, in view of the fact that he supervises in the neighborhood of one hundred different agencies, it would seem clear that he is in no position to co-ordinate the detailed operations of these five welfare agencies.¹³

Robert W. Kelso, in a special report to the Social Welfare Commission, recommended the following change in the administrative organization of the child welfare services:

Child welfare should be built into the welfare set-up as a division of the work co-ordinated with general relief and the so-called categorical classifications. On the state level there should be a division of child welfare operating under the director of social welfare and having the several duties now assigned to the Juvenile Institute Commission, together with aid to dependent children and all other distinct child care problems belonging to the department. On the county level such child care services should be integrated under the direction of a skilled child care worker at the joint cost of state and country.¹⁴

¹² *P.A.*, 1939, No. 280, sec. 55, as amended by *P.A.*, 1943, No. 85.

¹³ *Report of a Survey of the Administrative Organization of the Michigan State Social Welfare Commission* (Lansing: Mich. Civil Service Comm., 1942), pp. 22-23.

¹⁴ Kelso, Robert W., *Report and Recommendations. . . to the Governor Relative to Possible Improvement in the Organization and Functioning of the System of Public Welfare Services in Michigan. . .* Submitted October 6, 1942 (Detroit, 1942), p. 25.

The Michigan Child Guidance Institute, in its annual report to the governor in 1940, called attention to the misunderstanding which had arisen among the different state agencies carrying on child welfare work and duplication of details resulting from the lack of co-ordination.¹⁵ Reference was made in that report to instances on record where five or six representatives of different state agencies visited the same community on exactly the same errand within two or three days of each other. In its final report to the governor, the institute recommended that a child council be created on the state level for the purpose of co-ordinating child welfare services.¹⁶

The governor would serve as chairman of the council proposed by the institute, and its membership would be representatives of all the different state agencies that are charged with the duty of administering any phase of child welfare work. This council would be required to meet at least twice each year to appraise the entire child welfare program in the state and to co-ordinate and integrate the policies, programs, and activities of the several tax-supported agencies. To carry out these functions, the institute recommended that an administrative agency be created within the council, to be known as the Division of Delinquency Prevention; and that on the local level a county child welfare board be established consisting of the heads of all tax-supported agencies which exercise protective functions over children. On the local level the board would serve as the co-ordinating agency similarly to that of the state council on the state level.

Child delinquency had increased so rapidly by 1943 that

¹⁵ *First Comprehensive Report. . . . Nov. 1, 1937 to Dec. 1, 1940* (Ann Arbor: Mich. Child Guidance Instit. [1941]), pp. 43-80.

¹⁶ *To Control Delinquency in Michigan. . . . Recommendations Submitted. . . . Feb. 17, 1943 to the Governor of Mich.* (Ann Arbor: Mich. Child Guidance Instit., 1943), pp. 5-6. The institute was created by an act of the legislature in 1937 for the purpose of studying the causes of child delinquency, recommending methods of treatment, and furnishing leadership in constructive information in the field. After approximately five years of study and research, the institute made its final recommendations to the governor and was discontinued by *P.A.*, 1943, No. 36, effective July 1, 1943.

Governor Harry F. Kelly decided to call a conference of state, local, and federal officials interested in child guidance to consider the nature and extent of the state's youth problem. As a result of this conference it was decided to obtain information and opinions from various communities of the state relative to the causes and remedies of child delinquency. The information gathered was analyzed by a special committee and published by the State Department of Social Welfare.¹⁷

The cause mentioned most frequently for increasing delinquency in the state was unsatisfactory home conditions, such as family discontent and breakdown, employment of mothers outside the home, absence of fathers for military service or employment in distant plants. Other causes contributing to delinquency listed in the order of frequency of mention were the following: (1) local social conditions aggravated by the war, (2) a general lowering of the standards of conduct, (3) inadequate leisure time programs, (4) inadequate treatment programs for offenders, (5) inadequate law enforcement programs, (6) inadequate school programs.

The corrective measure for child delinquency most frequently recommended was the expansion of recreational and character building programs. The next most frequently mentioned remedy recommended was the enactment of legislation establishing more effective legal procedure in dealing with parents of delinquent children. Other corrective measures suggested were as follows: (1) passage of stricter laws and the improvement of law enforcement, (2) extension of counseling facilities and social service programs, (3) development of parent education programs, (4) co-ordination of community preventive and treatment programs, (5) improvement of the juvenile court structure and program, (6) a return to sterner measures in dealing with youth, and (7) strengthening of religious influences in home and community.

As a result of the governor's first conference and preliminary survey, a number of committees were appointed to carry on the

¹⁷ *Juvenile Delinquency Report* (Lansing: Mich. Governor's Juvenile Delinquency Study Comm., 1943).

work of the youth guidance program.¹⁸ The Governor's Youth Guidance Committee was composed of the heads of state departments responsible for youth guidance and the representatives of associations of local officials. This committee is responsible for state-wide planning, co-ordinating the child welfare work of state and county officials, and counseling with the governor. County youth guidance committees consisting of local officials and private agencies were appointed in seventy-three counties to co-ordinate and plan activities on the county level. The voluntary organizations serving youth throughout the state, constitute the Michigan Youth Guidance Advisory Council whose function is to integrate governmental and voluntary youth programs. The council now has a membership of sixty-three organizations. The Governor's Legislative Survey Committee, consisting of twenty-three members, was appointed to review Michigan legislation relating to juveniles and to recommend improvements in the law. The governor authorized a survey to be made, data collected to support the recommendations of the legislative committee. This survey revealed that the counties were poorly equipped for dealing with problem children. The schools also lacked personnel qualified for the guidance of such children, and the child guidance clinics of the state hospital commission were serving only a few counties. The survey brought out the fact that the records of several agencies serving children in the state were not uniform, which made it difficult to form an accurate picture of the youth problem.

The over-all result of the committees' efforts was to strengthen and improve the program for the protection, development, and guidance of youth. The juvenile law was simplified and modernized by the adoption of provisions recommended in the Model Juvenile Court Act prepared by the National Probation Association. Other measures adopted were drawn from the experience of committee members. The outstanding provisions af-

¹⁸ *A Report to the Governor . . . on Revision of Michigan Juvenile Laws. . . Together with the Proceedings of the Governor's Youth Guidance Conference, January 17, 1944. . .* (Lansing: Mich. Governor's Legislative Survey Comm. and Mich. Governor's Youth Guidance Comm., 1944).

fecting youth enacted by the legislature may be summarized as follows:¹⁹ (1) elimination of the labeling of children as dependent, neglected, and delinquent; (2) authorization of the juvenile court to handle cases unofficially; (3) provision for limited jurisdiction over parents, with authority to impose rules governing the conduct of parents whose children are under the jurisdiction of the court; (4) provision for appeal to the circuit court from a decision in the juvenile court; (5) provision for commitment of older youth to the Michigan Correction Commission on indeterminate sentence, up to the age of twenty-one years for correctional treatment and vocational training; (6) revision of laws governing licensing of boarding homes for child care and placing agencies to conform with the modern practice of foster care; (7) provision for voluntary admission of children to state hospitals; (8) permission of local governmental bodies to make financial contributions to state child guidance clinics; (9) establishment of a visiting teachers' program designed to give special attention to children presenting behavior problems; (10) permission of school boards to establish nursery schools; (11) provision for full-time and salaried county agents in counties of 30,000 population or more.

In 1945 the youth guidance commission was created by *Public Acts* No. 241 to promote programs for youth guidance. This is a commission consisting of the governor, the superintendent of public instruction, commissioner of state police, state commissioner of health, director of the state department of social welfare, director of the state department of corrections, and six members to be appointed by the governor to serve at his pleasure.

SERVICES FOR THE BLIND²⁰

In 1940 the Michigan Social Welfare Commission established the Division of Services for the Blind. This division co-ordinates

¹⁹ For a complete description of the youth guidance program during the first year, see F. F. Fauri, "Michigan's Youth Guidance Program: a Review of the First Year," *Public Welfare*, 2 (1944): 141-45, 155.

²⁰ *Mich. Social Welfare Comm., Biennial Rept., 1942-44*, pp. 37-40.

the activities of the public and private agencies serving the blind. By act of Congress in 1943 federal funds were made available to the Commission for the rehabilitation of the blind by specialized treatment separate from other rehabilitation programs. The responsibility for this program has been assumed by the division and is administered locally through county bureaus of social aid. As a part of the special program the division makes available to blind persons educational, recreational, medical, and vocational rehabilitation services.

Another important duty of the division is finding employment for the blind. A state owned vending stand program has been established as a means of creating employment. In addition an industrial placement service has been created to place employable blind persons in private industry. Private plants are not organized to train persons without sight and it is necessary for the division to assist employers in training the worker after he enters the plant. The co-ordinated program for the rehabilitation and training of the blind has turned many helpless blind persons into productive and useful citizens. This program represents a most constructive step in improving the conditions of Michigan's blind, and promises much for the future.

In 1943 the Michigan Employment Institution for the Blind at Saginaw was placed under the supervision of the bureau, although there is still a resident superintendent. This institution which was established in 1904, furnishes vocational training for the blind and in addition supplies steady employment for a limited number. Apprenticeship courses are offered in such trades as mat making, rug weaving, broom making, sewing, and piano tuning. Raw materials are provided for blind workers who desire to work in their own homes.

VOCATIONAL REHABILITATION

Following World War I, the Federal Government established a program to furnish medical aid and vocational rehabilitation for former soldiers and sailors. In 1920 the Federal Vocational Rehabilitation Act was passed authorizing grants-in-aid to the states for the purpose of guiding, training, and replacing persons

disabled in industry. Michigan passed legislation in 1921, accepting the requirements and benefits of the federal act, and authorizing the establishment of a state-federal program.²¹ By subsequent legislation, to conform with the Social Security Act of 1935 and amendments, the law was revised and the scope of the services enlarged and made more secure.

PURPOSE

The general purpose of the present vocational, rehabilitative program is to restore persons, disabled in industry or otherwise, to remunerative employment. As interpreted by the State Board of Control for Vocational Education, the program is designed to accomplish the three following purposes: re-establishment of persons with employment experience who become handicapped as a result of permanent physical disability; establishment in remunerative occupations of persons without employment experience who are permanently physically handicapped and whose normal opportunity for employment is materially affected by the physical disability; and retention in suitable employment of physically disabled persons who are or may reasonably be expected to become vocationally handicapped in such employment unless adjustments are made.²² The services provided include the following items: medical and surgical care to correct, insofar as possible, physical handicaps and hospitalization incident to such treatment; the necessary devices for general rehabilitative treatment; free books, tuition, and necessary expenses incurred by eligible persons while in training; and transportation, tools, and necessary equipment upon completion of training.

ELIGIBILITY

To be eligible for rehabilitation, the applicant must be a resident of the state and at least sixteen years of age. In addition it must be shown that the applicant has a permanent physical

²¹ C.L., 1929, sec. 7723.

²² *Mich. State Board of Control for Vocational Education, Biennial Rept.*, 1942, p. 196.

disability, is vocationally handicapped, and with assistance may become self-supporting. Persons having any disability whether congenital or acquired by accident, injury, or disease may be included in the program. The services are available to the deaf, hard of hearing, blind, partly seeing, cardiac, crippled, and tubercular.

ADMINISTRATION

The Federal Rehabilitation Act provides that state programs for vocational rehabilitation shall be conducted according to plans approved by the United States Office of Education. It is the duty of this agency to maintain standards of operation and to formulate policies of administration for the state programs. The receipt of federal grants is conditioned upon the administration of the service by a state board for vocational education. In conformity with this provision, vocational rehabilitation in Michigan is administered by the State Board of Control for Vocational Education within the Department of Public Instruction. The personnel of the Board consists of the superintendent of public instruction, the president of the State Board of Education, the president of the University of Michigan, and the president of Michigan State College of Agriculture and Applied Science.²³ The law requires the State Board of Labor and Industry and the State Board of Control for Vocational Education to co-operate with one another and with the Federal Board for Vocational Education in carrying out the program for vocational rehabilitation. Likewise, the Michigan Social Welfare Commission, through its several divisions, serves as a referring agency in locating physically handicapped persons on relief who may benefit from the vocational rehabilitation program. A number of other interested agencies and individuals co-operate in the program. Included among these are the Crippled Children's Commission, the Michigan Society for Crippled Children, the State Selective Service and local draft boards, the American Red Cross, the State Defense Council, the public

²³ *P.A.*, 1919, No. 149.

schools, associations for the disabled, and the United States Employment Service.

For the purpose of administration the state has been divided into six district offices. These are under the general supervision of a central office located in Lansing. The staff consists of a chief who is responsible for the supervision of the state program, a state supervisor of case work, a district supervisor in District 2, containing Wayne, Oakland, and Macomb counties, and twelve field agents. Advisory committees have been appointed to assist the staff in discovering methods of improving the program.

For the fiscal year ending June 30, 1941, the total case load was 1,615, but a year later it rose to 3,031, as a result of increased numbers who were injured in war industries and military camps, and a greater demand for rehabilitation of workers in the war industries. In 1942, 695 persons were placed in remunerative positions and 222 appliances were provided in order to equip these people for re-employment. For the period, 1921-42, 10,254 persons were rehabilitated.

FINANCING

The vocational rehabilitation program is financed by state and federal funds. Federal grants, which are administered by the United States Office of Education, are apportioned according to the population, and must be matched by state funds.

TABLE XI

EXPENDITURES FOR VOCATIONAL REHABILITATION IN MICHIGAN*
1941-1943

Fiscal Year Ending June 30	Administration	Case Service and Supervision	Total Expenditures from State and Federal Funds
1941	\$28,712	\$120,590	\$149,302
1942	31,720	157,661	189,381
1943	33,725	170,580	204,305

* Michigan State Board of Control for Vocational Education *Biennial Rept.*, 1942, pp. 228-9, supplemented by letter from George H. Fern, Director, dated May 16, 1944.

Total expenditures from state and federal funds for vocational rehabilitation rose from \$149,302 in 1941 to \$204,305 in 1943, as is shown in Table XI. This sharp increase reflects the influence of war conditions on the program. The tendency for the Federal Government to increase its financial participation in the program is indicated in Table XII; federal grants increased from \$20,300 in 1923 to \$184,001 in 1944.

TABLE XII

FEDERAL GRANTS FOR VOCATIONAL REHABILITATION IN MICHIGAN*
1923-1943

Fiscal Year Ending June 30	Amount	Year	Amount
1923	\$20,300	1938	\$ 74,501
1928	26,979	1939	64,444
1933	44,842	1940	74,864
1934	36,767	1941	74,866
1935	45,128	1942	112,942
1936	53,434	1943	115,439
1937	50,000	1944	184,001

* Mich. Auditor-General, *Financial Repts.*, 1923-44.

III

HEALTH AND MEDICAL SERVICES¹

MICHIGAN DEPARTMENT OF HEALTH²

THE MICHIGAN DEPARTMENT OF HEALTH was established in 1873, and is one of the oldest state health departments in the nation. Present organization of the department is based on a law enacted in 1919 which abolished the State Board of Health and provided for the appointment of the state health commissioner by the governor for a term of four years. The state health services, headed by the commissioner, is organized on a departmental basis, although the law does not specifically create a department of health. The State Council of Health, consisting of five members appointed by the governor, was established to assist the commissioner. The members of the council hold office for a term of six years and meet at least four times each year upon call of the commissioner. It is the duty of the commissioner to enforce all public health laws and regulations. He is authorized to establish rules and regulations for safeguarding the public health, with the concurrence of the state council, and these have the force of law.

The Michigan Department of Health acts in an advisory capacity to the county and district departments of health. It has direct supervision over county and district health departments in the selection of qualified personnel and the enforcement of minimum regulations for the control of communicable diseases during emergencies. The department is divided into twelve bureaus, each of which is headed by a director responsible to the state health commissioner.³ Although many services are

¹ See pages 142-46 of this study for a summary and conclusion on health and medical services.

² *A Manual for County and District Health Directors in Michigan* (Lansing: Mich. Dept. Health, 1943); *Mich. Dept. Health, Ann. Repts.*, 1936-41.

³ Each of the following principal activities is covered by a separate bureau: business administration, education, engineering, epidemiology, tuberculosis control, industrial hygiene, laboratories, maternal and child health, public health dentistry, public health nursing, records and statistics, and local health services.

rendered directly to individuals and organizations, the major concern of the department is to establish and maintain adequate local, health departments.

FEDERAL PARTICIPATION

With the adoption of the Social Security Act of 1935, the Federal Government assumed a definite leadership in the development of a national public health program. Prior to this time, participation by the Federal Government consisted of irregular grants, which were of little fiscal importance. The Social Security Act provides for federal grants to be used by the states for establishing and maintaining an adequate public health service including the training of personnel. These grants, which are administered by the United States Public Health Service, are distributed in accordance with plans presented by the Michigan Department of Health and approved by the Surgeon General of the Public Health Service. Funds are apportioned to the states on the basis of population, public health problems, and fiscal needs. In order to qualify for most of these grants, the state or local units must contribute some portion of the funds needed for the program. With federal assistance the Michigan Department of Health has been able to strengthen existing bureaus, develop special health programs, and expand county, district, and city health services.

Child and Maternal Welfare and Health⁴

A program to improve child and maternal health and welfare was in operation in Michigan for many years before the enactment of the Social Security Act of 1935. This service was extended and improved with federal assistance, which was first made available in 1936. One of the chief objectives of the state-federal program is to improve the lay and professional understanding of maternal and child health. In working with lay groups, the Michigan Department of Health, through the Bureau of Maternal and Child Health, has centered its activities largely on educational work, such as lectures to mothers

⁴ *Mich. Dept. Health, Ann. Repts., 1936-43.*

TABLE XIII
DISBURSEMENTS OF STATE AND FEDERAL FUNDS IN MICHIGAN FOR HEALTH SERVICES*
1939-1944

Fiscal Year Ending June 30	Tuberculosis			Michigan Dept. of Health	Crippled and Afflicted Children			Grants to Counties and Cities				Miscel- laneous	Total Disburse- ments	
	Mental Hygiene†	Grants to Counties for Care of Patients	State San- atoriums†		Total	Afflicted	Crippled	Bedside Educa- tion	Total	County and City Public Health Service	County and City Veneral Disease Program			County and Maternal and Child Health Service
1939	\$ 8,374,000	\$3,026,813	\$576,816	\$3,603,629	\$ 890,554	\$2,002,052	\$1,118,051	\$37,306	\$3,157,463	\$108,900	.....	.....	\$22,394	\$16,156,940
1940	\$ 4,483,731	2,136,319	470,212	2,606,531	1,081,059	443,964	364,868	17,063	826,825	114,750	.....	.....	40,154	11,712,350
1941	7,042,068	2,003,801	463,479	2,527,280	1,239,011	970,516	647,077	21,757	1,645,950	118,500	.....	.....	32,492	13,525,900
1942	9,877,640	2,046,747	556,321	2,603,068	1,179,825	591,544	503,121	16,582	1,171,497	285,968	\$68,273	\$84,811	\$38,657	13,509,738
1943	10,601,953	1,892,555	572,246	2,464,801	1,381,117	493,775	508,000	20,982	1,083,257	294,122	107,839	70,505	41,306	10,042,850
1944	12,068,037	2,441,924	671,935	3,113,859	1,555,458	502,052	534,821	231	1,037,104	324,828	142,135	773,403	38,993	19,054,037
Percentages														
1939	51.83	18.73	3.57	22.30	5.51	12.39	6.92	0.23	19.54	0.67	.....	.....	0.14	100
1940	60.13	18.24	4.01	22.25	9.24	3.79	3.12	0.15	7.06	0.98	.....	.....	0.34	100
1941	58.86	15.26	3.43	18.69	9.16	7.22	4.70	0.16	12.17	0.88	.....	.....	0.24	100
1942	64.52	13.37	3.63	17.00	7.71	3.86	3.68	0.11	7.05	1.87	0.45	0.55	0.25	100
1943	66.09	11.79	3.57	15.36	8.61	3.08	3.54	0.13	6.75	1.82	0.67	0.46	0.20	100
1944	63.34	12.82	3.53	16.35	8.16	2.63	2.81	0.001	5.44	1.70	0.75	4.06	0.20	109

* Mich. Auditor-General, *Financial Repts.*, 1939-43.

† Includes expenditures for State Hospital Commission and operation of state institutions for the mentally handicapped.

‡ Includes expenditures for the Tuberculosis Sanatorium Commission, operation of state sanatoriums, and treatment of state tubercular employees.

relative to childbearing and care, organization of classes in child care for girls in secondary schools, radio talks, consultation with local workers, and the distribution of literature. Recently greater emphasis has been placed on child nutrition. The bureau has assisted in providing special training for physicians and nurses and has arranged for demonstrations of modern technique used in maternal care.

The purpose of federal participation, as stated in the Social Security Act, is to promote "health of mothers and children, especially in rural areas and in areas suffering from economic distress." In order to qualify for federal aid, the state must meet certain conditions prescribed by the Social Security Act.⁵ Federal grants are subject to approval by the Chief of the Children's Bureau of the United States Department of Labor. The Secretary of Labor apportions funds to the state according to need, as indicated by the number of live births and the amount necessary to carry out the approved state plan.⁶

Venereal Disease Program

An amendment to the Venereal Disease Act passed by Congress in 1938 made available federal funds to the states and political subdivisions to carry on a program for the control of venereal diseases.⁷ This work is accomplished by means of clinics established throughout the state where cases are diagnosed, treatment is given, and drugs are distributed. In 1944 a venereal disease rapid treatment center was established at the University of Michigan Hospital in Ann Arbor. Military areas have been established in order to assure better control over conditions surrounding men in service. A co-operative program by the Bureau of Industrial Hygiene and Bureau of Epidemiology—Division of Venereal Disease Control—has been organized for the purpose of trying out new methods of treatment, and facilities have been provided in hospitals located in Detroit and

⁵ Social Security Act, Title V, Pt. I; *U. S. Code*, Title 42, 1940 ed., Chap. 7, Subchap. V, secs. 701-5.

⁶ *Ibid.*

⁷ *U. S. Code*, Title 42, Chap. 1, secs. 24-26.

Ann Arbor. This program also includes postgraduate training of workers in special schools, consultation with state and local medical agencies, education, and organization. The Michigan Department of Health reports that the spread of venereal diseases is being successfully opposed where full-time health departments are in operation, but that in parts of the state where the health services are still administered by townships satisfactory progress can not be made. In 1944 expenditures by the Michigan Department of Health represented 8.16 per cent of the total state annual disbursements for health services. The cost of operating the department amounted to about \$1 million per year over the period, 1939-1944. In addition, as shown in Table XIII, the department granted substantial sums to county and city programs—for the fiscal year, 1942-43, these grants amounted to \$1,240,586.

Table XIV shows that federal grants for general public health services rose from \$96,856 in 1936 to \$358,490 in 1944. Federal aid for venereal disease control and maternal and child health also increased substantially. Of the \$1,147,679 spent for the maternal and child health program in 1944, \$719,581 was

TABLE XIV
FEDERAL GRANTS FOR MICHIGAN HEALTH PROGRAMS*
1936-1943

Fiscal Year Ending June 30	General Public Health Program	Venereal Disease Control Program	Maternal and Child Health Program	Crippled Children	Total	Per Cent of Total State Disbursements for Health Services
1936	\$ 96,856	.....	\$ 37,996	.....	\$ 134,852	4.6
1937	280,290	.....	84,441	.....	364,731	12.0
1938	292,142	.....	107,364	.....	399,506	7.4
1939	247,004	\$ 75,891	84,577	\$100,000	507,472	3.1
1940	247,611	124,736	71,821	59,260	503,428	4.3
1941	315,900	158,438	164,573	136,132	775,043	5.7
1942	344,300	189,600	175,573	106,794	816,267	5.3
1943	314,571	236,204	244,796	123,627	919,198	5.7
1944	358,490	304,068	1,147,679	139,763	1,950,000	9.1

* Mich. Auditor-General, *Financial Repts.*, 1936-43.

for services to the wives of enlisted men. Although federal grants have been effective in encouraging the development of Michigan health programs, total funds received in 1943 amounted to only 9.1 per cent of total state disbursements for health services.

MENTAL HYGIENE⁸

The mental hygiene program includes the services provided for the mentally ill, mentally defective, and epileptic.⁹ These services are administered by the State Department of Mental Health. Within the department is a commission consisting of five members appointed by the governor with the consent of the senate for a staggered term of five years. The commission is responsible for establishing policies, rules, and regulations of the department and the selection of certain personnel. The commission and the governor elect a director who serves as the chief executive of the department. The director of the department with the consent of the commission appoints a superintendent of each state hospital and training school and executive heads for the following divisions: (1) business administration, (2) hospitals, and (3) mental hygiene. Each hospital superintendent is authorized to appoint assistants and employees of the institution which he heads. The director of the State Department of Mental Health appoints a director for each child guidance clinic operated within the state.¹⁰

It has been the policy in Michigan, as well as other states, to furnish care and treatment for the mentally ill in hospitals, supported by public funds. In addition to care and treatment furnished resident patients, outpatient services have been estab-

⁸ Although the federal-state social security program does not include any phase of mental hygiene, a brief description is given here in order to present a complete general picture of the health and medical services provided in Michigan.

⁹ State hospitals for the insane are located in Kalamazoo, Pontiac, Traverse City, Newberry, and Ypsilanti; state institutions for the feeble-minded at Lapeer, Mount Pleasant, and Coldwater, and for the criminally insane at Ionia. A farm colony for epileptics is operated at Ionia.

¹⁰ *C.L.*, 1929, secs. 6878 and 460 *et seq.*, as amended by *P.A.*, 1937, No. 104; *P.A.*, 1939, No. 142; *P.A.*, 1945, No. 271.

lished, including clinics and family care for the mentally ill and for child guidance. These will be described briefly in the sections that follow.

Outpatient Clinics

All of the Michigan hospitals for the mentally ill conduct outpatient clinics where services are provided for paroled patients, cases being considered by the courts for commitment, and for individuals having symptoms of mental illness.¹¹ Fairly representative of the functions performed by outpatient clinics are those described by the superintendent of the Traverse City State Hospital.¹² Clinics are held periodically in nine different cities of the Lower Peninsula under the auspices of the hospital.¹³ Patients of all ages are referred to the clinics mainly by physicians, social agencies, and the courts. For the fiscal year ending June 30, 1944, three hundred adults and two hundred children were examined in these clinics. Of the total cases received 10 per cent were given intensive treatment; others received diagnostic services, brief psychotherapy treatment or were referred to institutions or agencies. In addition psychiatric clinics were established for veterans at Muskegon and Traverse City to which patients are referred by the American Red Cross, the State Selective Service, and the United States Employment Service, and veterans associations. The service to veterans consists mainly of counseling, although treatment is given in certain cases.

Family Care

More recently much interest has been developed in supplementing hospitalization of patients with family care. As explained by the director of mental hygiene, a degree of improvement is frequently reached in treating certain hospitalized pa-

¹¹ Charles F. Wagg, Executive Secretary, State Hosp. Comm., Letter, April 4, 1945.

¹² R. Phillip Sheets, Medical Superintendent, Traverse City State Hospital, Letter, March 24, 1945.

¹³ Clinics are held in Alpena, Bay City, Cadillac, Ludington, Midland, Muskegon, Roscommon, Saginaw, and Traverse City.

tients which requires placement in a family or community before they can be returned to their own homes.¹⁴ More suitable treatment can also be provided by family care for certain patients who have spent several years in an institution without reaching an adjustment that would permit their being placed in their own homes. Experience has shown that many such patients improve rapidly under family care and can later be paroled. Some old people whose mental illness is the result of hardened arteries or senility may be provided with adequate care and treatment under the family home program. As of November 30, 1944, 154 patients were in family care out of a total population of 25,505 in Michigan¹⁵ institutions for the mentally handicapped.

CHILD GUIDANCE PROGRAM¹⁶

In 1941 the legislature authorized the State Hospital Commission to establish a child guidance program.¹⁷ Pursuant to this authority, child guidance clinics or centers have been opened at Detroit, Grand Rapids, Kalamazoo, Lansing, Marquette, Muskegon, Pontiac, Saginaw, and Ypsilanti. The clinics are administered by the director of the State Department of Mental Health with the assistance of a professional staff, consisting of child psychiatrists, psychiatric social workers, and psychologists. Cases are referred to the clinics by physicians, probate courts, schools, social agencies; and parents. The community selects a local advisory board to aid in raising the community's share of the funds needed to support the program, and to assist the staff in interpreting the purpose of the program. The local voluntary committee formed in the community to

¹⁴ Director of Mental Hygiene, Mich. State Hosp. Comm., *First Ann. Rept.*, 1943.

¹⁵ Mich. State Hosp. Comm. and Mich. Dept. Corrections, Central Statistical Bureau, Lansing, *Monthly Statistical Bull.*, June, 1944, p. 7.

¹⁶ Frank F. Tallman, Director of Mental Hygiene, State Hosp. Comm., Child Guidance Program of the Mich. State Hosp. Comm., *Journ. Mich. Med. Soc.*, 41 (1942): 1041-43.

¹⁷ C.L., secs. 6878, *et seq.*, as amended by P.A., 1937, No. 104; P.A., 1941, No. 299.

present an application to the commission for a children's center usually appoints the members of the advisory board upon request of the commission. The commission has not laid down any rule controlling the number of members to be appointed or the groups to be represented.¹⁸

The services offered are consultation, diagnosis, treatment, and community education pertaining to the mental hygiene of children. The professional staff, upon request, advises with physicians or social workers as to the methods of treating their patients. A child may be brought to the clinic for diagnosis by the professional staff, and a method of treatment prescribed and agreed upon in conference. The responsibility for treatment is assumed by the clinic only in cases requiring highly specialized and lengthy therapy. As of November 30, 1944 a total of 785 children were under the care of the several clinics.

FINANCING

The expenses of the Hospital Commission and the several hospitals for the mentally ill and incompetent are financed by biennial appropriations from the state general fund. The auditor-general collects from parents and guardians of patients who have been adjudged by the court as able to pay the costs incurred for care and treatment. The patient's expenses for the first year in a state institution must be paid by the county of his residence, and this also is collected by the auditor-general.

Salaries of the professional staff serving child guidance clinics are paid by legislative appropriation. The communities provide clinic quarters, equipment, supplies, salary of the secretary, and, when possible, services of additional social workers, and in addition contributes about 20 per cent of the total budget. Expenditures for mental hygiene dropped from \$8.3 million in 1939 to \$7 million in 1940. Subsequent to 1940 the tendency was upward, and by 1944 total disbursements had reached \$12 million. This increase was accompanied by a rise in patient population. On June 30, 1941 the total number of patients in all

¹⁸ Charles F. Wagg, Executive Secretary, State Hosp. Comm., *Letter*, dated February 5, 1945.

Michigan institutions for the mentally handicapped was 22,117. On June 30, 1943 the population had risen to 24,783, and for the same date in 1944, it was 25,227. In 1939 expenditures for mental hygiene represented 52 per cent of the total disbursements by the state for health services but by 1944 this percentage had risen to 63 per cent.

TUBERCULOSIS

The administration of the health services for tubercular persons on the state level is divided between the Michigan Department of Health and the Tuberculosis Sanatorium Commission. The commission consists of the state health commissioner and nine other members appointed by the governor for a staggered term of three years.¹⁹ Five members of the commission must be licensed practicing physicians of Michigan with six years' experience in the treatment of tuberculosis and three members resident citizens of the state. The commission has supervision and control of the State Sanatorium at Howell, the Northern Michigan Tuberculosis Sanatorium located at Gaylord, and Pinecrest State Sanatorium near Kalamazoo. The commission appoints superintendents of the sanatoriums to serve at its pleasure.

The law designates three classes of patients who are eligible for care and treatment in a state sanatorium. The first class consists of indigent residents of Michigan who are referred to a sanatorium for treatment by state or local officials.²⁰ For this class the state bears the expenses up to \$2.50 a day, and the county of legal settlement is obligated to pay any additional costs including transportation to and from the sanatorium. The state pays the entire expenses incurred for the care and treatment of a second class of patients composed of employees who have contracted tuberculosis while employed in any state hospital, sanatorium, or the University of Michigan Hospital. Residents of Michigan who are able to pay for their care and treatment at any state sanatorium constitute the third class.

¹⁹ *P.A.*, 1929, No. 115, as amended by *P.A.*, 1931, No. 186, *et seq.*

²⁰ *P.A.*, 1927, No. 314, as amended by *P.A.*, 1937, No. 93; *P.A.* 1941, No.

Any approved county tuberculosis sanatorium receives a state grant of \$2.50 a day for each free patient treated.²¹

The law places the responsibility of discovering and controlling persons afflicted with tuberculosis on the state health commissioner. He is authorized to make rules and regulations and to establish procedure for the guidance of health officers. As previously mentioned the Bureau of Tuberculosis Control has been established within the Michigan Department of Health. This bureau performs the following functions: (1) aids full-time health departments in the development of tuberculosis control programs, (2) supervises the enforcement of the laws controlling tuberculosis, (3) inspects tuberculosis hospitals and sanatoriums, (4) administers a mobile X-ray unit, (5) analyses reported cases, deaths, and hospital reports, and (6) confers with agencies and institutions concerned with tuberculosis control relative to the administrative policy, epidemiology, and statistics.²²

State grants to counties for local care and treatment of tubercular patients declined steadily from \$3 million in 1939 to \$1.9 million in 1943 and rose to \$3.1 million in 1944.²³ For the same period expenditures for state sanatoriums ranged from a low of \$463,479 in 1941 to a high of \$671,935 in 1944. Total state expenditures for service to tubercular patients, exclusive of tuberculosis control administered by the Michigan Health Department, declined from \$3.6 million in 1939 to \$2.5 in 1943 and rose to \$3.1 million in 1944. For the latter year these expenditures constituted 16.35 per cent of the state total for health services.²⁴

CRIPPLED CHILDREN

As early as 1881 Michigan²⁵ provided for the care and treatment of dependent crippled children, but it was not until 1913 that practical legislation was enacted extending the service to

²¹ *P.A.*, 1925, No. 177, as last amended by *P.A.*, 1945, No. 206.

²² *A Manual for County and District Health Directors in Michigan* (Lansing: Mich. Dept. Health, 1943), p. 117.

²³ See Table XIII, p. 54.

²⁴ See Table XII, p. 54.

²⁵ *P.A.*, 1881, No. 138; *P.A.*, 1912, No. 274.

all children. The program has been extended and strengthened by later legislation.²⁶ Although Michigan had developed a comprehensive program for crippled children before the enactment of the Social Security Act of 1935, this law has played an important part in shaping the policies and administration of the service.

Services for crippled children and administrative agencies responsible for their administration will be examined briefly in the sections which follow.

THE MICHIGAN CRIPPLED CHILDREN COMMISSION

The Michigan Crippled Children Commission, which was established in 1927 to administer the service for crippled children, consists of five members appointed by the governor with the consent of the senate. The commission is charged with the duty of discovering crippled children, diagnosing their cases, administering treatment where necessary, providing custodial care and special educational facilities, and formulating and administering a detailed plan to carry out these functions. The commission is required to appoint a director and business manager, to make the rules governing its procedure, and to co-operate with the Federal Government in "developing, extending, and improving" the service for crippled children. To qualify for federal assistance the commission must prepare plans for administration which meet with the approval of the Children's Bureau of the United States Department of Labor. These requirements are similar in most respects to those applicable to child and maternal welfare and health, which were summarized in a previous section. The state plan must "provide for co-operation with medical, health, nursing, and welfare groups, and with any agency charged with administering a vocational rehabilitation program."²⁷

Of the fifty-two jurisdictions furnishing care and medical attention for crippled children in this country, only five, including

²⁶ The Crippled Children's Act, *P.A.*, 1937, No. 158, as amended by *P.A.*, 1943, No. 227, *P.A.*, 1945, No. 187.

²⁷ *Social Security Act*, Title V, Pt. II, sec. 513a, *U. S. Code*, Chap. 7, Subchap. V, secs. 711-15.

Michigan, have created a separate administrative commission.²⁸ In twenty-nine jurisdictions this function is performed by departments of health; and nine by departments of welfare; in five by departments of education; in three by state university medical schools or hospitals; and in one by a separate board of control. According to the *Social Work Yearbook* issued in 1943, there is a trend toward the transfer of the service for crippled children to health agencies. State officials recognize that the program is one that primarily involves the field of medical care which can be administered more appropriately under health auspices.

Discovery

As a means of discovering cases, the Michigan law provides that the school children's census enumeration forms prepared by the state superintendent of public instruction shall include blanks for the special enumeration of crippled children under twenty-one years of age. Other reporting agencies are hospitals, field clinics, and private physicians.²⁹

Diagnosis

A crippled child as defined by the law is "one under twenty-one years of age, married or unmarried, whose activity is or may become so far restricted by defect or deformity of bones or muscles, or the impairment of function thereof, as to reduce his or her normal capacity for education and self-support."³⁰ The diagnosis of crippled children is accomplished through clinics authorized by the commission to be held at such times and places as conditions warrant. During the fiscal year, ending June 30, 1943, twenty-four clinics were held covering fifty-six of the eighty-three counties in the state.³¹ In these clinics 1,744 cases were examined and added to the register. Of the 14,569 cases on the register, as of June 30, 1943, 16.7 per cent were diagnosed as poliomyelitis, commonly known as infantile

²⁸ *Social Work Yearbook* (7th issue; New York: Russel Sage Foundation, 1943), p. 171.

²⁹ Mich. Crippled Children's Comm., *Report* (Lansing, 1944).

³⁰ *P.A.*, 1937, No. 158, sec. 2.

³¹ Mich. Crippled Children's Comm., *op. cit.*

paralysis, 9.8 per cent as cerebral palsy, 7.8 per cent as club foot, and 5.2 per cent as injuries; the remaining cases were the result of sixty-eight other crippling conditions.

Care and Treatment

The commission submits to the probate judge of the county where a crippled child resides, or is found, a certified report containing a description of the child's physical and mental condition, the financial circumstances of the family, and a report of a licensed "practitioner of medicine." Upon receipt of the commission's report, the judge of probate is required to make a prompt determination of the case. If the parents of the child are unable to pay for treatment, the state assumes complete responsibility for this service and the probate judge issues an order to the commission directing that the child be conveyed to a hospital within the state that has been approved and designated by the commission as suitable for the care and treatment of crippled children. It is stipulated in that law that "any hospital approved by the American College of Surgeons may be accepted by the commission if it maintains suitable orthopedic, convalescent, and educational facilities." As of June 30, 1943, the commission had approved twenty-three such hospitals in which 3,351 children were receiving care and treatment at a total cost of \$375,157. A large part of these cases was treated at the University Hospital in Ann Arbor. A direct nursing service for crippled children is furnished by public health nurses appointed by counties, cities, or other local units.³²

*Education*³³

Hospitals that have been approved to receive crippled children for treatment must provide such educational training for convalescent children as the state superintendent of public in-

³² *Ibid.*

³³ *P.A.*, 1945, No. 187. Bedside education is given at the following institutions: Farmington Convalescent Home, Branch of the Children's Hospital, Farmington; George H. Cummings Memorial Home, Mt. Clemens; St. Luke's Hospital, Marquette; University Hospital, Ann Arbor.

struction deems advisable, and all programs established are subject to his approval and regulation. Hospitals are reimbursed from the state general fund for expenses incurred in conducting educational programs.

Orthopedic day schools or classes for crippled children may be established where there is a sufficient number of pupils in a school district to warrant their organization. In 1943 thirty-four school districts of thirty-four cities of the state were furnishing special educational facilities for the education of crippled children with state financial assistance. State grants for resident children may not exceed the difference between the average per capita cost of instructing crippled children and the average cost of educating children in similar grades in the regular school of the district. In no case may aid for resident crippled children exceed \$200 per year. School districts are similarly reimbursed for nonresident crippled children, but the amount must not exceed \$300 per year.

Custodial Care

It is the duty of the commission to provide custodial care for crippled children. A custodial case is defined in the law as a person under twenty-one years of age who, because of physical handicaps, can improve little or not at all from orthopedic treatment, and who is incapable of being trained for remunerative employment, but who may be made partially self-supporting under proper conditions. A child declared eligible for custodial care may continue to receive this care after the age of twenty-one at the discretion of the commission. Custodial care may be given in public institutions or convalescent homes which have been licensed by the State Department of Social Welfare.

Financing

Funds for the treatment of crippled children are derived mainly from state appropriations. These have been supplemented by federal grants in recent years, which have averaged about \$100,000 annually since 1939.³⁴ In order to qualify for

³⁴ See Table XIV, p. 56.

federal grants, the state must provide for financial participation in the service. The Secretary of Labor apportions the funds to the state in the same manner as aid for maternal and child welfare.³⁵

The law provides that parents or others legally responsible for the support of crippled children, but who are unable to pay toward the cost of the state service, may enter into an agreement with the county judge of probate and the commission to reimburse the state for money spent. Parents need not be indigent, however, to be eligible for state assistance; for although a family may be self-supporting under normal circumstances, it might be unable to meet the unusual expenses involved in the care and treatment of a crippled child. Such situations call for a reasonably liberal interpretation of the law. Annual collections from parents for treatment and education of crippled children are shown in Table XV for the period 1939-44. Receipts ranged from \$18,214 in 1940 to \$56,063 in 1944. For the latter year total collections amounted to 10 per cent of total expenditures.

TABLE XV
REVENUES COLLECTED FROM PARENTS FOR TREATMENT
AND EDUCATION OF CRIPPLED CHILDREN*
1939-1944

Year Ending June 30	Treatment	Tuition Fees	Total
1939	\$14,244	\$7,505	\$21,749
1940	14,038	4,176	18,214
1941	28,528	1,999	30,527
1942	20,175	450	20,625
1943	41,883	5,318	47,201
1944	53,743	2,320	56,063

* Mich. Auditor-General, *Financial Repts.*, 1939-43.

Expenditures for crippled children from state and federal funds, as is shown in Table XVI, totalled \$1,118,051 in 1939. The state appropriation was reduced drastically for 1940 and expenditures dropped to \$364,898. For the period 1941-44 ex-

³⁵ See p. 55 *supra*.

penditures remained fairly stable at about \$550,000 per year. The sharp increases in administrative costs for 1942 and 1943 were the result of a complete reorganization of this agency and enlargement of staff.

TABLE XVI

EXPENDITURES OF STATE AND FEDERAL FUNDS FOR CRIPPLED CHILDREN*
1939-1944

Year Ending June 30	Number of Cases	Medical Treatment	Investigation of Need for Treatment	Transportation	Administration	Total†
1939	5,683	\$1,023,369	\$4,199	\$44,692	\$ 45,791	\$1,118,051
1940	3,107	300,287	3,048	12,813	48,750	364,898
1941	3,724	576,103	2,861	23,183	45,530	647,677
1942	3,822	448,852	2,188	23,208	88,873	563,121
1943	3,351	398,777	1,773	24,450	143,500	568,500
1944	.....	384,229	3,030	29,312	118,250	534,821

* Expenditures from Mich. Auditor-General, *Financial Repts.*, 1939-43; number of cases from *Crippled Children's Commission, Bureau of Statistics*.

† Expenditures for bedside education of crippled children and afflicted children are reported as one item by the auditor-general and are not included in the above totals. See Table XIII, p. 54 for combined expenditures. Expenditures from federal funds are not reported separately. For federal grants received see Table XIV, p. 56.

Hospitals approved for the care and treatment of crippled children are limited to fees not to exceed \$7.00 a day for the care of acute cases, \$4.25 a day for ward costs of convalescent patients, and \$75 for a major operation. Professional fees paid to any one surgeon for one patient may not exceed \$200 over a period of twelve months.³⁶

AFFLICTED CHILDREN

Care and medical attention for sick and afflicted children were first provided by a general law enacted in 1881, which applied to dependent children in need of medical or surgical treatment.³⁷ The basic act providing a practical program for afflicted children was passed in 1913.³⁸ Since that year it has been the policy to furnish medical or surgical treatment at state

³⁶ P.A., 1937, No. 158, sec. 30, as amended by P.A., 1943, No. 227.

³⁷ P.A., 1881, No. 138.

³⁸ P.A., 1913, No. 274.

expense for afflicted children whose parents or guardians were unable to pay for their care. The 1913 act, as amended, was replaced in 1939 by the Afflicted Children's Act.³⁹ This act defines an afflicted child as "a married or unmarried person, under twenty-one years of age, who is afflicted with a physical defect or illness, including a fracture, which can be remedied, or who is pregnant, and whose parents or guardians have resided within the state for not less than one year."⁴⁰

ADMINISTRATION OF AFFLICTED CHILDREN'S ACT

Applications for care and treatment may be made either to the Michigan Crippled Children's Commission or to the probate judge. Upon receipt of the application an investigation must be made, covering the following items: physical and mental condition of the child, financial ability of the parents, and a certification from a physician or surgeon relative to the child's condition. The probate judge is charged with the duty of approving or rejecting all applications. If the application is approved, he must provide care and treatment in the child's home, when possible, at local expense, but if such service is not available, he is required to enter an order directing that the child be conveyed to a hospital approved by the commission.

Upon receipt of an order from the probate judge, the commission determines whether the case is acceptable as a state charge. If accepted the child is assigned to a hospital approved and designated by the commission for the care of afflicted children. As a result of this provision nearly all cases are transferred to the commission in order to relieve the county of paying the costs out of local funds. The law charges the superintendent of approved hospitals with the responsibility of providing inpatient or outpatient services. Where treatment is given in the outpatient department of the hospital, the child may be assigned by the commission to a boarding or convalescent home approved and supervised by the State Department of Social Welfare, or any other agency approved by the commission.

The number of cases treated have fluctuated with the amount

³⁹ *P.A.*, 1939, No. 283, as amended by *P.A.*, 1943, No. 225.

⁴⁰ *Ibid.*, sec. 2.

of funds made available to the commission, as is indicated in Table XVIII. For the fiscal year 1938-39 a large appropriation was made with the result that 24,368 cases were treated in 117 different approved hospitals. For the years 1940-43 appropriations were reduced to a lower level and the number of cases treated annually varied from 8,937 in 1941 to 5,384 in 1943. A large portion of these cases was treated at the University Hospital in Ann Arbor.

Financing

The services for afflicted children are financed largely from state funds. Parents or guardians, who are able financially, are required to enter into an agreement to repay the commission for costs incurred for treatment before the child is committed to the hospital. Revenues collected from persons legally responsible for the care of afflicted children have fluctuated roughly with the number of cases treated, as is indicated in Tables XVII and XVIII. For the fiscal year 1938-39 collections amounted to \$98,086; for the period 1940-44 annual receipts were on a lower level ranging from \$43,657 in 1940 to \$78,094 in 1944. In 1944

TABLE XVII

REVENUES COLLECTED FROM PARENTS FOR TREATMENT
OF AFFLICTED CHILDREN*
1939-1944

Year Ending June 30	Amount
1939.....	\$98,086
1940.....	43,657
1941.....	49,977
1942.....	71,608
1943.....	65,872
1944.....	78,094

* Mich. auditor-general, *Financial Repts.*, 1939-44.

collections were 15.5 per cent of total state expenditures for afflicted children. The cost of the child's transportation to and from the hospital must be paid by the county from which the child was admitted. All other expenses, including the cost of economic and medical investigations, are paid by the state. The

funds are distributed to the counties, 75 per cent upon the basis of population, and 25 per cent according to need. The law limits the amount which a hospital may collect for services and materials to an amount not to exceed \$7.00 a day for the care of acute cases and \$4.25 a day for ward costs of convalescent patients. Professional fees for a major operation may not exceed \$75 and in no event may such fees to any one doctor be more than \$200 per year for each patient. No fees may be collected for services rendered by the professional staff at the University Hospital in Ann Arbor.

Total state expenditures for afflicted children, as shown in Table XVIII, reached \$2,002,052 in 1939. Appropriations for 1940 were reduced materially and expenditures dropped to \$443,964; they rose to \$976,516 in 1941, then declined to \$502,083 in 1944.

TABLE XVIII
EXPENDITURE OF STATE FUNDS FOR AFFLICTED CHILDREN*
1939-1944

Year Ending June 30	Number of Cases	Medical Treatment	Investigation of Need for Treatment	Adminis- tration	Total†
1939	24,368	\$1,958,439	\$28,876	\$14,737	\$2,002,052
1940	6,248	417,449	9,668	16,847	443,964
1941	8,937	939,394	17,938	19,274	976,516
1942	7,734	557,602	6,108	27,834	591,544
1943	5,384	453,508	5,312	34,955	493,775
1944	.....	426,500	5,618	69,965	502,083

* Expenditures from Mich. auditor-general *Financial Repts.*, 1939-43; Number of cases from Crippled Children's Commission, Bureau of Statistics.

† For expenditures for bedside education, see Table XIII, p. 54.

LOCAL HEALTH SERVICES

The local health units recognized by law are the county, district, township, and municipality. The board of supervisors of any county is authorized to establish a health department. Two or more counties may unite to form a district health department subject to the approval of the State Health Commissioner. Where a single county department has been created,

the county board of supervisors may appoint a board of health of five members for a staggered term of five years. Members of the county board of supervisors may or may not be appointed to serve on this board. The board of health of a district department consists of three members selected from the county board

TABLE XIX

EXPENDITURES FOR COUNTY AND DISTRICT HEALTH DEPARTMENTS IN
MICHIGAN AND SOURCE OF FUNDS FOR FISCAL YEAR
ENDING JUNE 30, 1944*

Source of Funds	Expenditures	Per Cent of Total
Counties.....	\$ 613,323	42.8
State.....	148,300	10.3
Federal		
County and District Health Departments, United States Public Health Service under Title VI of the Social Security Act..	\$156,098	10.9
Under venereal disease act.....	46,400	3.2
Maternal and Child Health, United States Public Health Service under Title V of the Social Security Act.....	101,135	7.1
Total Federal Aid.....	303,633	
Children's Fund of Michigan.....	141,064	9.8
W. K. Kellogg Foundation.....	215,916	15.1
Miscellaneous.....	11,520	.8
Total Expenditures.....	\$1,433,756	100.0

* Michigan Department of Health (Lansing, 1944).

of supervisors of each county forming the district, except the board may have a greater or lesser number of representatives with the consent of the county boards.⁴¹ In 1943, sixty-nine of the eighty-three counties were being served by either county or district departments.⁴² In the remaining counties the administration of health service is the responsibility of the township

⁴¹ *A Manual for County and District Health Directors in Michigan* (Lansing: Mich. Dept. Health, 1943), p. 8 ff.

⁴² E. V. Thiehoff, Director, Bureau of Local Service, State Dept. Health, *Letter*, dated Oct. 4, 1943.

board. The board is charged with the duty of appointing a well-educated physician as health officer except that it may appoint the township supervisor or some other person if it is not practical to secure the services of a physician.

Expenditures of the county and district health departments for the fiscal year ending June 30, 1944, as shown in Table XIX, amounted to \$1.4 million. Of this total the counties contributed 42.8 per cent, the Federal Government 21.2 per

TABLE XX

EXPENDITURES FOR CITY HEALTH DEPARTMENTS AND SOURCE OF FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 1944*

City	Sources of Funds and Amounts			
	City Funds	United States Public Health Service under Title VI of Social Security Act	Federal Venereal Disease Act	Total
Battle Creek.....	\$ 33,994	.....	\$ 7,180	\$ 41,174
Bay City.....	17,735	.....	1,800	19,535
Dearborn.....	63,217	.....	.....	63,217
Detroit.....	5,192,149	\$15,676	60,801	5,268,626
Flint.....	124,248	1,850	8,800	134,898
Grand Rapids.....	112,301	1,800	3,725	117,826
Jackson.....	52,883	.....	500	53,383
Lansing.....	68,126	.....	6,160	74,286
Pontiac.....	28,665	.....	4,860	35,445
Saginaw.....	54,498	.....	4,020	58,518
Total.....	\$5,747,816	\$19,326	\$97,846	\$5,866,908

* Michigan Department of Health (Lansing, 1944).

cent, the W. K. Kellogg Foundation 15.1 per cent, the state 10.3 per cent, and the Children's Fund of Michigan 9.8 per cent; the balance, 0.8 per cent, was from miscellaneous sources.

Expenditures by the ten major cities of the state (Table XX) for the fiscal year ending June 30, 1944 amounted to \$5.9 million for health services, or four times as much as was required in the sixty-nine counties served by health departments. Of this total only 2 per cent was furnished by the federal government.

IV

SOCIAL INSURANCE

WORKMEN'S COMPENSATION¹

THE TERM workmen's compensation is now applied generally to social insurance schemes which provide standardized economic benefits for workers injured or killed in industry without regard for the traditional legal defenses involving negligence. Workmen's compensation was first adopted in Germany in the eighties, in England in the nineties, in the United States in 1902 when the State of Maryland passed the first act, and in Michigan in 1912.² As of January 1, 1945, Alaska, Hawaii, Puerto Rico, and every state, except Mississippi, had enacted workmen's compensation laws. In addition the national government has enacted compensation laws which cover federal employees, longshoremen and harbor workers, and all private employees in the District of Columbia. Workmen's compensation is a pioneer in the field of social insurance and the experience gained over the forty years since its inception in this country has contributed much in the formulation of other programs. The Michigan Act was thoroughly revised by amendments enacted by the 1943 and 1945 sessions of the legislature.³

Although all jurisdictions are agreed upon the general objective of workmen's compensation as stated above, the provisions vary relative to scope, coverage, amount of compensation payable, and methods of administration. In the sections which follow, the provisions of the Michigan act covering the important phases of workmen's compensation will be examined, and the principal features compared with those in effect in other states.

¹ A summary of the important facts and conclusions reached relative to workmen's compensation is presented on pp. 146-55 of this study.

² *P.A.*, extra session, 1912, No. 10.

³ *P.A.*, 1943, No. 245; *P.A.*, 1945, Nos. 318, 325.

SCOPE OF LEGISLATION

The Michigan Workmen's Compensation Act is compulsory upon all public⁴ and private employers of labor within the state with the following exceptions: (1) employers who regularly employ less than eight workers at one time, (2) employers of (a) domestic servants, and (b) farm labor. Employers of less than eight workers or employers of farm or domestic workers may elect to assume the statutory liability for compensation by purchasing a compensation insurance policy. As of November, 1943, approximately seventeen hundred thousand Michigan workers were covered by the compulsory provisions of the law and about one hundred thousand through election.

ADMINISTRATION⁵

The Michigan Workmen's Compensation Act is administered by the Compensation Commission, the commissioner of insurance, and an advisory board. The Compensation Commission consists of five members designated by the governor from the personnel of the commissioners responsible for the administration of the Department of Labor and Industry. Three members of the commission must be lawyers, but any one of the five may be named by the governor to act as chairman. The Commis-

⁴ Public employers subject to the act include the state, county, city, township, incorporated public board or commission authorized by law to hold property and to sue or be sued. Elected officials are not covered by the act.

⁵ For a more detailed account of the policies and practices followed in the administration of the Mich. Workmen's Compensation Act, see:

Betty W. Allie, "The Advancement of Michigan's Workmen's Compensation Act," *Mich. Labor and Industry*, 4, No. 5 (1943): 3, 8; 4, No. 6 (1943): 4-5, 14.

Betty W. Allie, "The Major Provisions. . . The Amended Compensation Act," *Mich. Labor and Industry*, 4, No. 1 (1943): 6-7.

Vincent P. McAuliffe, "Functions of Deputy Commissioners," *Mich. Labor and Industry*, 5, No. 1 (1944): 4-5, 9.

Charles H. Mahoney, "Occupational Disease Amendments," *Mich. Labor and Industry*, 5, No. 3 (1944): 3, 9.

James L. Hill, "Compensation Coverage," *Mich. Labor and Industry*, 5, No. 2 (1944): 4, 9.

sioner of insurance is appointed by the governor with the advice and consent of the senate to serve at his pleasure. He is an ex-officio member of the Insurance Rating Commission and the Employers' Liability Insurance Rating Commission, and is responsible for the management of the accident fund. The advisory board consists of fifteen members appointed by the governor for a term of one year from persons nominated by employers who contribute to the accident fund. It is the duty of the board to advise with the commissioner of insurance on the administration of the accident fund.

A great majority of the claims presented by injured workers are paid by the employer or insurance carriers without any formal proceedings before the commission. If any claimant is dissatisfied with the disposition of his case made by deputy commissioners, he may appeal to the commission which has authority to review, affirm, modify, or reverse the decisions of the deputy commissioners. When a decision of the commission turns upon a legal issue and not one of fact, the aggrieved party may appeal to the state supreme court.

COMPENSATION

All personal injuries arising out of and in the course of employment are compensable. The term personal injury includes injuries resulting in death and in all occupational diseases. The injured employee must wait seven days before he is entitled to benefit payments unless his incapacity extends to four weeks or longer, or death results, in which cases compensation must be paid from the date of injury. Benefits payable to an employee are determined by taking $66\frac{2}{3}$ per cent of his average weekly wage at the time of the injury with a minimum of \$10 and a maximum of \$20 per week. These benefits are doubled for a minor under eighteen years of age who is injured while illegally employed. If death results from an injury, the dependent survivors are entitled to the following weekly benefits: one dependent will receive \$2.00 less than $66\frac{2}{3}$ per cent of the average weekly wage at the time of death, and from this amount the

payments would increase by \$2.00 increments for each dependent up to five. For example, the minimum for one dependent would be \$8.00 per week and the maximum \$19, while the minimum for five dependents would be \$16 and the maximum \$27.

The duration of benefits and the total maximum payable depend upon the nature of the injury. The law contains a classification of injuries and designates the number of weekly benefit payments allowed for each. These range from five weeks for the loss of the first joint of a small toe to 750 weeks for the loss of both hands or other permanent and total disability. If the employee continues to work although partly incapacitated, the employer must pay a weekly compensation equal to $66\frac{2}{3}$ per cent of the difference between the average weekly wage before the injury and the average that he is able to earn thereafter. The maximum number of weeks payable for injuries resulting in partial disability is five hundred, and for total disability 750 weeks. In the event of death the maximum number of weeks payable to survivors wholly dependent upon the deceased is four hundred. A worker may accumulate 750 weeks of benefit payments by successive losses of members such as an arm, eye, etc.

In addition to the benefit described above, the employer must furnish promptly such hospitalization, medical, or surgical treatment as is necessary to cure the worker or relieve him of the effects of the injury. The injured employee may choose his attending physician from an authorized medical panel which is compiled and supervised by the compensation commission.

FINANCING

The Michigan law provides three methods of financing workmen's compensation, anyone of which may be selected by the employer. One method is for the individual employer to assume the statutory liability for the payment of benefits by furnishing proof of his financial ability to meet these obligations and to provide adequate supervision of industrial injuries. As a prerequisite to this plan the commissioner of insurance requires

the employer to take out a bond which, in effect, guarantees the payment of benefits to workers.

A second method of financing is for the employer to insure against the liabilities created by statute in an employers' liability company authorized to issue policies covering risks in Michigan.

A third method is for the employer to insure his liability through the state accident fund. This fund is self-sustaining and no state appropriation has ever been made for its support. Premiums paid into the fund are based upon rates promulgated by the National Bureau of Casualty and Surety Underwriters and by the Michigan Compensation Rating Board. An administrative practice peculiar to Michigan is the payment of a 10 per cent commission to agents of private insurance companies for business turned over to the fund.

When a covered employee without dependents dies from an injury, the employer must pay \$1,000 into the Second Injury Fund. This fund is used to compensate any employee for second and subsequent injuries.

PRINCIPAL FEATURES OF THE MICHIGAN WORKMEN'S COMPENSATION SYSTEM COMPARED WITH THOSE IN SYSTEMS
IN OTHER STATES⁶

Workmen's compensation laws may be either compulsory or elective as to the employment covered and voluntary as to that exempted. Michigan belongs to a group of twenty-three jurisdictions in which the acts are compulsory. In thirty other jurisdictions employers may elect to insure under the act. Thirty jurisdictions of this country, including Michigan, exempt employers from the Workmen's Compensation Act if they have less than a specified number of workers. In Michigan and Alabama an employer with fewer than eight employees is exempt, while in twenty-five jurisdictions the exemption is less than eight and in three it is greater than this number. The range for all jurisdictions is from two to fifteen. In most of

⁶ Alfred Acee, "Principal Features of Workmen's Compensation Laws as of Sept., 1943," *Monthly Labor Rev.*, 57 (1943): 729-48.

the states, as in Michigan, small employers exempted on a numerical basis may elect to come under the act. The exemption in some states does not apply to certain employment such as that in mines and in other hazardous occupations, while in others it covers only nonhazardous employment. In Michigan and most of the other states employers of agricultural workers and domestic servants are exempted from the compulsory provisions of the law, but they may elect to come under the act.

As originally enacted, none of the workmen's compensation laws provided benefits for occupational diseases, but in more recent years it has been recognized that workers should be protected from illness arising from possible serious injury caused by industrial accidents. There are now thirty-two jurisdictions in this country which by one method or another compensate for all or specified occupational diseases. Until 1943 the Michigan law covered only thirty-one such diseases, but in that year the law was amended to include all occupational diseases, which are now estimated by industrial hygienists to number more than nine hundred.

The amount of money that injured workers actually receive under the different compensation acts is determined by the following factors: the rate, which is usually a percentage of the wages; duration of payments; number of dependents, and, in most states fixed minimum and maximum payments. The amount and method of payment also differ depending upon whether the injury results in temporary total disability, permanent partial disability, permanent total disability, or death. In Michigan and in all other jurisdictions except four, the amount of the compensation payable weekly is a stipulated percentage of the average weekly wages received by the worker subject to a prescribed maximum. This percentage in all jurisdictions ranges from $42\frac{1}{2}$ per cent to 70 per cent as compared with $66\frac{2}{3}$ per cent in Michigan. The maximum weekly payment prescribed by Michigan law is \$21 for a surviving injured worker and \$27 for a deceased worker leaving dependents; for all the jurisdictions the range is from \$12 to \$30. In Michigan the duration of weekly payments in the event of death of the

worker leaving dependents is four hundred weeks and the total payable to dependents exceeds that found in any other jurisdiction except Ohio and Rhode Island. For permanent total disability Michigan allows a maximum payment of \$21 and a total duration of seven hundred and fifty weeks. This is exceeded only in Rhode Island where the maximum weekly payment is \$20 and the total number of weeks one thousand. For permanent partial disability Michigan provides a maximum weekly payment of \$18 and total duration of five hundred weeks. This total is exceeded only in Wisconsin where the maximum weekly payment is the same as in Michigan, but the total number of weeks one thousand. For temporary total disability Michigan allows a maximum weekly payment of \$21 and five hundred weeks duration. In five jurisdictions benefits are allowed for the entire period of disability, and it is possible in these instances for the total benefits paid to a single worker to exceed those made in Michigan.

Michigan belongs to a group of eleven states where employers may choose whether they will insure their risks in a state fund or with a private insurance company, or will qualify as "self-insurers" with the privilege of carrying their own risks. In most states the employer is permitted to insure in a private insurance company. State insurance systems exist in nineteen jurisdictions, but in only eight of these are employers required to insure all their risks in the state fund.

UNEMPLOYMENT COMPENSATION⁷

Efforts to introduce public unemployment compensation systems in the United States before the onset of the depression encountered strong and successful opposition. Although unemployment insurance had been adopted by a number of European countries, it was contended by many in this country that such a system was socialistic and contrary to American traditions of "rugged individualism." Another deterrent was that employers feared being placed in a position of disadvantage in competing

⁷ A summary of the important facts and conclusions reached relative to unemployment compensation is presented on pp. 147-51 of this study.

with those of other states. As the depression deepened conditions developed which tended to overcome objections to legislation designed to reduce unemployment. There was urgent need for relief of unemployed workers. Some believed that payment of benefits to a large group of unemployed during periods of depression would stimulate business and create employment. Others thought that employers would be encouraged to stabilize their employment if payroll tax rates were made to vary directly with their employment experiences.

In an attempt to relieve and prevent unemployment Congress included in the Social Security Act of 1935 a general plan for state legislation and enacted the Federal Unemployment Tax Act, which in effect penalized employers in any state that failed to provide a system of unemployment compensation. In 1935 and 1937 Railroad Unemployment Insurance Acts were passed establishing a separate national unemployment compensation for the employees of railroads engaged in interstate commerce. Michigan like most of the other states did not provide for unemployment compensation until stimulated to do so by federal legislation. The Michigan Unemployment Compensation of 1936 and the Railroad Unemployment Insurance Act will be examined separately in the sections which follow.

THE MICHIGAN UNEMPLOYMENT COMPENSATION ACT⁸

Administrative Organization

The Michigan Unemployment Compensation Act is administered by the Michigan Unemployment Compensation Commission consisting of four members appointed by the governor with the consent of the senate. This commission was responsible for the administration of the Michigan State Employment Service until January 1, 1942, when upon request of the President, this function, together with the personnel, was transferred from the individual states to the United States Employment Service.

⁸ The Mich. Unemployment Compensation Act is *P.A.*, extra session, 1936, No. 1, as amended by *P.A.*, 1937, No. 347; *P.A.* 1939, No. 324; *P.A.*, 1941, No. 364; *P.A.*, 2d extra session, 1942, No. 18; *P.A.*, 1943, No. 246, *P.A.*, 1945, No. 335.

The federalization of the State Employment Service was designed to meet emergency demands under wartime conditions for a centralized agency to facilitate the organization of manpower.

An Appeals Board, consisting of three members appointed by the governor with the consent of the senate, hears and decides cases affecting employers and employees which are appealed from the decision of the commission. The findings of the Appeals Board may be further reviewed by the circuit court.

The Social Security Board has indirectly exercised considerable influence over the administration of state unemployment compensation through its power to require that satisfactory administrative methods be established and maintained in order to qualify for a state grant to cover the cost of administration.⁹

Coverage

In Michigan the legal definition of employment subject to payroll taxes, is similar to that of the federal law,¹⁰ and excludes agricultural labor, domestic service in private homes, maritime service, service for relatives; employment by government, by nonprofit-making organizations, and by railroad industries whose employees are covered by the railroad employment insurance system; and service by occupational groups, such as insurance agents on a commission basis, students, newsboys, and occasional laborers.

The federal payroll tax is not imposed on establishments having less than eight employees, and twenty-five state laws contain a similar provision. Two states impose the tax on employers with fewer than six employees; one with less than five; seven with less than four; two with less than three. In fourteen jurisdictions, all employers must pay the tax and their employees are entitled to receive benefits.¹¹

The Michigan Unemployment Compensation Act of 1936 imposed the tax on employers having one or more employees

⁹ Social Security Act, *U. S. Code*, Chap 7, Subchap. IX, sec. 1105.

¹⁰ *Internal Revenue Code*, 1939, as amended, Chap. 9, Subchap. C, sec. 1607.

¹¹ U. S. Social Security Bd., *Unemployment Compensation Abstract, Program Statistics and Provisions of State Laws, 1937-44* (1944), p. 2.

and a payroll of at least \$50 in each quarter year. For that year it was found that 92 per cent of the covered workers were employed by establishments having eight or more employees, and in 1937 the law was amended exempting employers with less than this number of employees.¹²

In 1943 the percentages of wages and salaries not covered by either state or federal unemployment compensation laws ranged from a low of 14.4 per cent in Delaware to 70 per cent in the District of Columbia with an average of 28.6 per cent for the country as a whole. In that year 16 per cent of total salaries and wages in Michigan was not covered by unemployment insurance. Michigan's proportion of uncovered workers was small as compared to other states, and was excelled only by Delaware.¹³

Difference of opinion has arisen concerning the advisability of broadening the scope of coverage. Employees of small establishments who are not protected by unemployment insurance and who must depend upon general or work relief during periods of unemployment have grounds for dissatisfaction with the plan. Small employers covered by unemployment insurance are placed at a disadvantage in competing with establishments excluded from the plan. Those who favor broader coverage call attention to the fact that several states have covered small employers with reasonable success and that the feasibility of this policy has been demonstrated by the Old Age and Survivors Insurance System.¹⁴

Financing

The Michigan Unemployment Compensation Act imposes a 3 per cent payroll tax on employers subject to certain adjust-

¹² Walter Matscheck and Raymond C. Atkinson, *Problems and Procedures of Unemployment Compensation in the States* (Chicago: Public Admin. Service, 1939), p. 10.

¹³ U. S. Social Security Bd., *Unemployment Compensation Abstract* . . . p. 2.

¹⁴ Raymond C. Atkinson, *The Federal Role in Unemployment Compensation Administration* . . . (Washington: Social Science Research Council, Comm. Social Security, 1941), p. 120.

ments under experience rating. In addition, the federal act imposes a 3 per cent payroll tax, but employers are allowed a credit against this tax of an amount equivalent to 90 per cent of a 3 per cent payroll tax. Should any state elect not to enact an unemployment compensation act, then the Federal Government would require employers to pay the entire 3 per cent federal tax into the United States Treasury. All the states, the District of Columbia, and the territories have enacted the necessary legislation and have availed themselves of the credit against the federal tax.

The state tax is collected by the Michigan Unemployment Compensation Commission and the federal tax by the Bureau of Internal Revenue. Payroll taxes collected by the commission must be deposited promptly in the United States Treasury to the credit of the State Unemployment Fund. This fund was created and its administration vested in the Treasury Department mainly to safeguard the unemployment compensation reserves against loss by poor investments and to lessen the danger of the money market being upset by the operation of reserve funds by fifty-one different jurisdictions. For convenience the Treasury Department invests the funds in special federal securities bearing the average interest rate for outstanding obligations.

The part of the federal tax not offset by state taxes is paid into the United States Treasury and is intended to provide the funds needed for administration of the several state acts, although it is not earmarked for that purpose. Congress makes an annual appropriation out of which grants are made to the several states to cover the cost of administration. The Social Security Board has wide discretion in the determination of the amount of grants to be allotted to the states for administration. The Social Security Act provides that the Social Security Board shall grant such amounts as it finds to be necessary for the proper and efficient administration of the state unemployment compensation laws based upon the following considerations: (1) population of the state; (2) an estimate of the number of persons covered by the state law and the cost of proper and

efficient administration of such law; and (3) such other factors as the board finds relevant.¹⁵

Experience or Merit Rating

When the Social Security Act was originally drafted, there was a difference of opinion on whether employees should pay a uniform tax rate or a variable rate which would reflect fluctuations in volume of unemployment. The result was a compromise which left a choice with the states regarding the type of tax rate to be imposed. As of July 1, 1943, forty-three of the fifty-one jurisdictions, including Michigan, had adopted the variable rate known as experience or merit rating.¹⁶ Experience rating, which became effective in Michigan on January 1, 1942, is designed to encourage greater effort to prevent unemployment by allowing employers a lower tax rate if their employment rate stays at a high level.

The Michigan law establishes twelve categories of employer's experience indexes and assigns to each category a payroll tax rate, as follows:

EMPLOYER'S EXPERIENCE INDEX	PAYROLL TAX RATE
(In Per Cent)	(In Per Cent)
Less than 1.0.....	1.0
1.0 and less than 1.3.....	1.3
1.3 and less than 1.6.....	1.6
1.6 and less than 1.9.....	1.9
1.9 and less than 2.2.....	2.2
2.2 and less than 2.5.....	2.5
2.5 and less than 2.8.....	2.8
2.8 and less than 3.1.....	3.1
3.1 and less than 3.4.....	3.4
3.4 and less than 3.7.....	3.7
3.7 and less than 4.0.....	4.0
4.0 or greater.....	4.0

An individual employer's experience index is determined by

¹⁵ Social Security Act, Title III, sec. 302a, *U. S. Code*, Chap. 7, Subchap. III, sec. 50.

¹⁶ *Unemployment Insurance Service* (Chicago: Commerce Clearing House, Inc., 1943).

TABLE XXI
MINIMUM RATES UNDER EXPERIENCE RATING PROVISIONS AS OF JULY 1, 1943* (PER CENT)

0	0.135	0.27	0.5	0.54	0.7	0.9	1	1.5	1.7
Hawaii Kentucky Missouri Nebraska South Dakota Wisconsin	Indiana	North Carolina	Alabama Delaware Illinois Massachusetts Minnesota Oklahoma Texas	Vermont	Ohio	Colorado Iowa Kansas Maryland New Jersey New Mexico South Carolina West Virginia	Arizona Arkansas California Georgia Idaho Maine Michigan Nevada New Hampshire North Dakota Oregon Pennsylvania Tennessee Virginia Wyoming	Connecticut District of Columbia	Florida

MAXIMUM RATES UNDER EXPERIENCE RATING PROVISIONS AS OF JULY 1, 1943 (PER CENT)

1.33	2.7	3.0	3.3	3.5	3.6	3.7	3.25	4.0	4.1	No Limit
Tennessee	Alabama California Connecticut Florida Georgia Hawaii Indiana Kansas Maine Maryland Massachusetts Nebraska New Hampshire North Carolina North Dakota Oklahoma South Dakota Texas Vermont Virginia West Virginia	Arizona Idaho	Wyoming	Ohio	Colorado Illinois Iowa New Jersey New Mexico South Carolina	Kentucky	Minnesota	Arkansas Delaware District of Columbia Michigan Oregon Pennsylvania Wisconsin	Missouri	Nevada

* *Unemployment Insurance Law Service* (Chicago: Commerce Clearing House, Inc., 1943).

dividing the total benefits charged to the employer's account over a period of three years by his total insured payroll for the same period. The tax rate payable by any employer then is ascertained by referring to the proper category in the above schedule. An employer is not entitled to a contribution rate of less than 3 per cent for the calendar years 1945 and 1946 unless the commission records show that he had accumulated, by September of the preceding year, a reserve balance of not less than 5 per cent of the taxable wages paid for the four calendar quarters ending September 30.

It is shown in Table XXI that fifteen jurisdictions impose a minimum rate of 1 per cent on payrolls and that this is the most commonly used figure among the 43 jurisdictions having experience rating. Nineteen jurisdictions impose rates lower than 1 per cent and only three exceed this figure. In six jurisdictions no tax is imposed under the most favorable employment conditions. The 4 per cent maximum in effect in Michigan, however, is high as compared with most of the other jurisdictions. For the District of Columbia and five other states the maximum is the same as in Michigan: Missouri imposes a maximum rate of 4.1 per cent and Nevada has no limit, and in the remaining thirty-three the maximum ranges from 1.33 per cent in Tennessee to 3.25 per cent in Minnesota.

The most common maximum is 2.7 per cent, which is in operation in twenty-one jurisdictions. Eight jurisdictions impose a uniform rate of 2.7 per cent.¹⁷ Alabama, California, New Jersey, and Rhode Island impose a tax on employees in addition to that on employers. The 1939 Michigan law contained a provision for increasing employer's contribution rates when the ratio of total benefits to payrolls increased and reducing them when this diminished. This provision was removed by a 1941 amendment, and at present no method is provided for regulating the amount of funds which may accumulate in the employment fund. The average employer contribution rate paid

¹⁷ Alaska, Louisiana, Mississippi, Montana, New York, Rhode Island, Utah, and Washington.

in Michigan for 1944 was 1.2 per cent of payrolls as compared with 1.8 per cent for all the states and territories.¹⁸

By recent legislation at least twelve states have¹⁹ provided for raising tax rates for employers whose payrolls have increased with the rapid expansion in wartime industry. These states recognize the probability that additional funds will be needed to meet the heavy demands by workers released from wartime industry and the armed forces and that contributions to the reserve fund should be made when the liability for unemployment is incurred. As shown in Table XXII the estimated average contribution rate in 1942 for the automotive industry in Michigan was 2 per cent. This industry, which accounted for 39 per cent of the payroll within the state, will be affected most seriously by the reconversion following the war, and it seems that some provision should have been made in the law to permit the accumulation of larger reserves.

A plan for increasing the tax rates on Michigan employers during the wartime high risk period was recommended to the legislature by the Michigan Unemployment Compensation Commission.²⁰ This plan called for a rate of 3 per cent on all payroll increases over the average payroll for the three-year period preceding December, 1943. For example, if an employer paid a 1 per cent rate under experience rating on a payroll of \$10,000 for the years 1941-43 and had a payroll of \$50,000 in 1944, he would pay a rate of 1 per cent on \$10,000 and 3 per cent on \$40,000. By this arrangement the state would allow credit for experience rating only on basic risks. A number of advantages would flow from the suggested plan. There would be greater assurance that adequate reserves would be available to meet

¹⁸ Social Security Bd., *Employment Compensation Abstract*, *op. cit.* . . . , p. 23.

¹⁹ Alabama, Florida, Georgia, Illinois, Iowa, Kansas, Maryland, Minnesota, Missouri, Ohio, Oklahoma, Wisconsin. Information obtained from the Michigan Unemployment Compensation Comm. (Detroit, July, 1945). Cf. Gladys R. Friedman, "War Risk Contribution Provisions in State Unemployment Compensation Laws," *Social Security Bull.*, 7, No. 5: (1944), pp. 2-8.

²⁰ *Mich. Unemployment Compensation Comm.*, Detroit, 1944.

benefit payments during the anticipated postwar period of unemployment, and a less satisfactory method of assisting the unemployed, such as resort to general direct relief, could be avoided. Employers would be able to accumulate adequate reserves in a period when their earnings are high and thus avoid increasing contributions when production is low. In the latter event Michigan employers may find themselves at a disadvantage in competing with industries of other states in which lower rates prevail. The unemployment compensation tax payment is a deductible item in determining the excess profits tax which now amounts to roughly 80 per cent, so that it would be of advantage to pay higher rates while the latter tax is still in effect.

The Michigan Unemployment Commission keeps a separate experience record for each employer, which includes the total taxable wages paid for the calendar year and the total benefits to be charged to his record.

Some Economic Effects of Experience Rating

The first experience rating provision in this country was adopted by Wisconsin in 1939; for the remaining jurisdictions the effective dates range from January 1, 1941 to January 1, 1945. Obviously, when these laws were enacted, there was little experience upon which to base such legislation. The experience rating provisions, therefore, were predicated largely upon the two following theories: (1) the payment of rates based upon the amount of unemployment experience by an individual employer will stimulate him to greater efforts in preventing unemployment, and (2) experience rating causes unstable industries to bear an equitable portion of the social cost of unemployment which occurs in such industries. These arguments will be examined briefly in the following paragraphs.

Stabilization of employment has been accepted by progressive, industrial concerns for many years as a means of increasing employment, reducing the cost of production, and realizing greater profits. It is generally admitted, however, that the prin-

principal causes of unemployment operate for extended periods over major sections of the economic system and cannot be controlled by employers acting individually.²¹ Dr. Charles Myers, after examining 247 Wisconsin firms, gave the following description of the efforts of Wisconsin employers to stabilize employment under the stimulus of experience rating:

When employers attempted to stabilize employment as a result of the Act they usually adopted certain devices, if they had not already done so before, and if such devices were practical in their particular businesses. Employment management was centralized, and the work force selected more carefully. There was greater effort to transfer employees between departments to avoid lay-offs, and some restraining was undertaken with that end in view. Sometimes employees were used for maintenance and repair jobs where there was not enough work to keep them busy in their regular departments. Where possible, the product or its parts were manufactured for stock during slack seasons, probably according to a production budget, so that it would be unnecessary to make so many lay-offs then or hire so many extras at a later peak. Other stabilization devices, such as diversification of products and markets dovetailing, and booking business in advance of the season were used less frequently. The tendency to maintain a small stable work force meant hiring fewer extras at the peak, thus adding somewhat to the total volume of unemployment.

Except for work spreading, which cannot usually be regarded as stabilization, employers can do little or nothing to reduce cyclical unemployment. They admit that they are powerless in the face of general declines in business, and few will avoid the temptation of taking on extra employees as business seems to be rising. In no important case, furthermore, did an employer say that the Act has caused him to postpone a technological labor-displacing change. The anticipated profit from such a change was held to outweigh possible financial savings from contribution rate reductions.²²

²¹ *Rept. . . . , Vol. II, Majority Rept. An Evaluation of Experience Rating in Relation to Federal Standards and the Broad Social and Economic Effect of Variable Rates* (Washington: Interstate Conf. Employment Security Agencies, Comm. on Experience Rating, 1940), p. 37 ff.

²² Dr. Charles A. Meyers, *Employment Stabilization and the Wisconsin Act*, (Washington: U. S. Social Security Bd., Bur. Employment Security, Research and Statistics Div. . . . , 1940), p. 42.

According to Dr. Myers' report, about half of the firms interviewed had done more work spreading under the impetus of the act, although only a minority had carried it to a point just above that at which benefits were payable. Other devices used for benefit avoidance were probationary-period hiring and the employment of ineligible. These practices indicate that a law which rewarded the employer who has a low benefit record encourages avoidance of the payment of benefits directly as well as by bona fide stabilization.

Dr. Myers concluded his evaluation of experience rating under the Wisconsin Act as follows:

Although many of the original claims concerning the Act have not been borne out in subsequent experience, it is an indication of progress in industrial relations that Wisconsin employers under the Act have been more concerned with employment problems than they were before. It is a positive gain that many employers have made genuine efforts under the impetus of the Act to reduce or eliminate intermittent and seasonal irregularity of employment where it is possible to do so. Many of the undesirable aspects of work spreading could be remedied by an amendment to the law, but some increase in total unemployment (at least in the short run) appears to be an inevitable accompaniment of thoroughgoing individual stabilization efforts.

As long as something positive has been accomplished toward stabilization of employment among some Wisconsin firms, and inasmuch as no workers have yet been denied benefits because of exhaustion of their former employers' accounts, the Wisconsin Unemployment Compensation Act should be accepted as a significant contribution to social legislation.²³

Some students of unemployment admit that the main causes of unemployment cannot be materially affected by the efforts of individual employers, but believe that according to equity and fairness unstable industries should bear the financial burden of unemployment incident to such industries. The allocation of the higher payroll taxes imposed on the unstable industries, it is claimed, is shifted forward to consumers through higher prices. It is possible, however, that part of the tax would

²³ *Ibid.*, p. 145.

be shifted forward to consumer and part backward to employers through reduced wages and smaller wage increases than otherwise would have been given. Employers would bear some of the burden by reason of reduced income and increased consumer goods prices. The weight of opinion among economists appears to be that the incidence of payroll taxes imposed on employers cannot be determined precisely, but that ultimately the main burden is more likely to be borne by workers than by consumers.²⁴ During the war period the Federal Government was the largest and in some cases the sole customer of many industries. The Social Security Board is of the opinion that probably a sizeable segment of employer payroll taxes was shifted to the government through prices included in war contracts or determined in renegotiation proceedings and hence fell on current and future taxpayers. The board believes that ceiling on prices of commodities sold to the civilian public restricted to some extent the shifting of employer payroll taxes to consumers under wartime conditions, and that the scarcity of manpower probably ruled out much shifting of employer taxes to workers.²⁵

Under an experience-rating system certain naturally stable industries, with little or no special effort toward stabilization of employment, would have the advantage of lower rates. On the other hand industries subject to cyclical influence would not be able to reduce costs materially through stabilization no matter how genuine their efforts. The effects of the adoption of experience rating, in Michigan, are shown in Table XXII. There is a concentration of payrolls subject to the 1 per cent minimum tax; for all industries the percentage was 51.3 per cent of the total; for public utilities, 83 per cent; for employers operating in the field of finance, insurance, and real estate, 71 per cent; and for employers engaged in the manufacture of durable goods,

²⁴ For a survey of the views of leading economists on the incidence of payroll taxes, see Seymour E. Harris, *Economics of Social Security* (1st ed.; New York: McGraw-Hill Book Co., Inc., 1941), pp. 285-323; Cf. Interstate Conf. Employment Security Agencies, Comm. on Employer Experience Rating, *Rept. Vol. II, op. cit.*, pp. 49-50.

²⁵ *Social Security Yearbook, 1943* (Washington: U. S. Govt. Print. Off. . . . , 1943), pp. 16, 17.

TABLE XXII
MICHIGAN EMPLOYER CONTRIBUTION RATES FOR 1942 BY INDUSTRY*

Industry Group	Number of Insured Employers	Percent- age of Total Number	Insured Payroll 1939-41	Percent- age of Total	Percentage Distribution by Rate Based on Payroll					Estimated Average Rate (Per Cent)
					Total †	Mini- mum 1	1-3 2.8	3-1 3.7	Maxi- mum 4.0	
Total, all industries.....	17,288	100.0	\$5,645,094	100.0	5.3	51.3	34.2	4.7	4.5	1.7
Mine and quarrying.....	206	1.2	80,355	1.4	5.1	43.1	38.8	4.7	8.3	1.8
Construction.....	1,244	7.2	142,266	2.5	23.1	15.5	32.5	8.3	20.6	2.6
Manufacturing.....	3,850	22.2	3,938,284	70.2	2.5	47.8	39.4	5.7	4.6	1.8
Automobiles.....	134	0.8	2,187,471	38.8	0.1	32.0	54.1	8.0	5.8	2.0
Other durable goods.....	2,221	12.8	1,170,246	20.7	5.2	64.4	23.0	3.3	4.1	1.5
Nondurable goods.....	1,495	8.6	600,567	10.7	6.0	73.1	17.5	1.9	1.5	1.3
Transportation, communication, and utilities.....	654	3.8	278,085	4.9	5.3	83.3	8.7	1.6	1.1	1.3
Trade.....	7,514	43.5	776,901	13.8	10.1	63.3	23.5	1.6	1.5	1.5
Finance, Insurance, and Real Estate.....	1,105	6.4	159,474	2.8	16.0	70.9	11.9	0.5	0.7	1.4
Service.....	2,070	11.9	210,276	3.7	14.9	48.0	29.6	2.5	5.0	1.7
All Other.....	645	3.8	39,453	0.7	37.2	28.9	16.8	1.8	15.3	2.4

* Adapted from Mich. Unemployment Comm., *Biennial Rept.*, 1940-42; Table VI.

† Employers who have not been subject to the act for three continuous years are required to pay 3 per cent.

other than automobiles, 64 per cent. A concentration of payrolls subject to the maximum tax was comparatively small, amounting to only 4.5 per cent of the total payment. According to the Michigan Unemployment Compensation Commission, 49 per cent of the payrolls of automobile manufacturers were subject to a rate of 2.2 per cent. The largest concentration at the maximum rate was on the payrolls of employers engaged in construction, which was imposed on 20.6 per cent of the payrolls of this industry.

After the adoption of experience rating in Michigan the average employer contribution rate dropped from 3 per cent in 1941 to 1.69 per cent in 1942, 1.60 per cent in 1943, and 1.2 per cent in 1944. It has been estimated that the adjustment of rates permitted by experience rating resulted in a reduction of \$68.8 million or 60 per cent of the amount which employers would have been obliged to pay on their 1944 payrolls had the original 3 per cent uniform rate remained in effect.²⁶ The possibilities of rate reduction, especially for the naturally stable industries, has had a strong appeal to employers, and undoubtedly has been an important factor in the rapid development of experience rating in the great majority of the states.²⁷

A divergence of opinion has arisen on the question of whether experience rating will result in interstate competition between employers engaged in the same line of industry located in different states. The Committee on Employers Experience Rating were divided on this issue. The majority view is that employers who are placed in unfavorable competitive positions will bring great pressure on legislature to reduce payroll taxes with the result that further progress in the development of adequate benefits will be hindered and that existing systems may even be broken down.²⁸ The minority view of the committee is that experience rating will probably have less important effects on

²⁶ U. S. Social Security Board, *Unemployment Compensation Abstract*, op. cit. . . . , p. 23.

²⁷ Forty-three states had adopted merit rating by 1942.

²⁸ For the detailed arguments presented in the majority report, see *Interstate Conf. Employment Security Agencies, Comm. on Employer Experience Rating, Rept.*, Vol. II, op. cit., p. 10.

employer competition across state lines than is often claimed. According to this view, the effects of experience rating on interstate competition will be relatively insignificant as compared to major factors which vitally affect industry, such as nearness to raw material, markets, and labor supply, freight rate differentials, income and property taxes.²⁹

The Social Security Board is convinced that serious competition among the states in the reduction of rates has already set in. The views of the board are expressed in the following words:

The diversity of experience-rating provisions under state laws has resulted in the fact that competing employers in various states contribute at different rates even when their employment experience is identical. In actuality, the allowance of additional credits against the federal unemployment tax in line with experience rating provisions has worked out so as to handicap competing employers in different states, a situation which that tax was intended to avoid. The result of these discrepancies is to instill in the states fear of placing their employers at a competitive disadvantage in comparison with employers elsewhere. This fear gives an incentive to distort employer experience-rating plans and to refrain from measures to improve benefit standards. This situation works out to the financial disadvantage of employers in states which are endeavoring to deal adequately with workers' risks of unemployment and undermines the basic purpose of the unemployment compensation program. It threatens to impede improvement in the security furnished by the system and defeat the purpose for which it was created.³⁰

Maintenance of Unemployment Compensation Fund

One of the most baffling financial problems which the commission and the legislature have to face is the maintenance of an adequate reserve for the payment of benefits. The risks of employment cannot be anticipated with the same degree of accuracy as the familiar types of insurance, such as accident, death, and fire. The sudden and severe depression beginning

²⁹ For arguments set forth in the minority report, see *Interstate Conf. Employment Security Agencies, Comm. on Employer Experience Rating, Rept. Vol. III; op. cit.*, pp. 8-12.

³⁰ *U. S. Social Security Bd., Seventh Annual Rept. . . .*, 1941-42 (Washington, 1942), pp. 16-17.

TABLE XXIII

ACCRUALS TO UNEMPLOYMENT COMPENSATION RESERVE FUND*

1937-1943†
(In Thousands of Dollars)

Period	Em- ployers' Contribution and Interest	Interest Earned and Credited	Total Net Contributions and Interest	Total Fund Before Benefit Payments	Net Benefit Payments	Balance of Fund End of Period	Ratio of Benefits to Fund (Per Cent)	Ratio of Accruals to Net Benefit Payments (Per Cent)
1937								
January-March	\$13,806		\$13,806	\$13,806	.....	\$13,806	.....
April-June	237	\$ 11	248	14,054	.....	14,054	.....
July-September	51	81	131	14,185	.....	14,185	.....
October-December	29,035	84	29,119	43,304	.....	43,304	.....
Total for Year	\$43,128	\$ 176	\$43,304	.....	.....	.....	.....
1938								
January-March	\$ 9,644	\$ 184	\$ 9,828	\$53,132	.....	\$53,132	.....
April-June	9,513	291	9,804	62,936	.....	62,936	.....
July-September	4,908	357	5,265	68,201	\$19,385	48,816	28.42	
October-December	8,839	355	9,194	58,010	37,492	37,492	35.37	
Total for Year	\$32,904	\$ 1,186	\$34,091	.....	\$39,903	.....	.....	.85
1939								
January-March	\$11,556	\$ 231	\$11,787	\$49,279	\$ 9,188	\$40,091	18.64	
April-June	11,201	229	11,430	51,581	7,370	44,211	14.29	
July-September	11,327	267	11,594	55,805	15,369	40,436	27.54	
October-December	11,013	269	11,282	51,718	5,187	46,531	10.03	
Total for Year	\$45,157	\$ 996	\$46,153	.....	\$37,114	.....	.....	1.24
1940								
January-March	\$12,143	\$ 276	\$12,419	\$58,950	\$ 5,777	\$53,173	9.80	
April-June	12,956	320	13,276	66,449	5,779	60,670	8.70	
July-September	12,997	363	13,360	74,030	12,665	61,365	17.11	
October-December	12,775	391	13,166	72,599	2,970	69,629*	4.09	
Total for Year	\$50,871	\$ 1,350	\$52,221	.....	\$27,191	.....	.....	1.92
1941								
January-March	\$15,089	.....	\$15,089	\$ 84,718	\$ 3,378	\$ 81,340	4.00	
April-June	16,347	\$ 895	17,242	98,582	2,183	96,399	2.21	
July-September	18,120	572	18,692	115,091	5,890	109,192	5.13	
October-December	17,981	665	18,646	127,838	3,856	123,982	3.02	
Total for Year	\$67,537	\$ 2,132	\$69,669	.....	\$15,316	.....	.....	4.59
1942								
January-March	\$19,052	\$ 739	\$19,791	\$143,774	\$19,072	\$124,701	13.27	
April-June	12,097	781	12,878	137,579	14,393	123,186	10.46	
July-September	12,360	757	13,117	130,393	5,066	130,697	4.11	
October-December	13,119	720	13,839	144,536	2,000	142,536	1.38	
Total for Year	\$56,628	\$ 2,997	\$59,625	.....	\$41,071	.....	.....	1.45
1943								
January-March	\$13,915	\$ 838	\$14,753	\$157,289	\$ 1,775	\$155,514	1.13	
April-June	15,985	916	16,901	172,415	723	171,692	0.42	
July-September	16,725	866	17,591	189,283	350	188,933	0.18	
October-December	16,183	942	17,125	206,058	371	205,687	0.18	
Total for Year	\$62,808	\$ 3,562	\$66,370	.....	\$ 3,219	.....	.....	20.62
1944								
January-March	\$13,298	\$ 1,014	\$14,312	\$219,999	\$ 1,345	\$218,654	0.61	
April-June	14,096	1,070	15,166	233,820	1,479	232,341	0.63	
Total	\$27,394	\$ 2,084	\$29,478	.....	\$ 2,824	.....	.....	10.44

* Mich. Unemployment Comm., *Biennial Repts.*, 1937-43.

† A total of \$1,931,485.64 was transferred to the Railroad Unemployment Insurance Account during October and November, 1940.

in 1933 and the Pearl Harbor attack in 1941 are examples of unforeseeable incidents affecting the volume of employment. Experience with unemployment insurance in Michigan, as in most of the other states, is too brief to support any but general conclusions relative to the amount of reserves which should be maintained.

Table XXIII shows accruals to the reserve fund from employee contributions and interest earned, net benefit payments, and the amount of reserve on hand at the close of each year for the period 1937-43. Before permitting any benefit payments in Michigan, a fund was accumulated over a period of eighteen months extending from January, 1937 to July 1, 1938. In that time a reserve of \$63 million had been established from employee contributions and interest earned. At the close of 1938 the fund had been reduced to \$37.5 million.

Benefit payments began at the bottom of a short but severe depression—the covered industries dropped from 1,279,000 employees in October, 1937 to 991,000 in January 1938, and to a low of 834,000 in July of 1938, a total decline of 34 per cent.³¹ From this point the volume of covered employees rose to 1,051,000 in December of 1938. For the twelve months following July 1, 1938, 23 per cent of insured workers were receiving benefit payments. Among the industrial groups the range was from 1.3 per cent in professional services to 44.6 per cent in automobiles, bodies, and parts. Payment of benefits for the July-September quarter, 1938, took 28 per cent and the October-December quarter 35 per cent of the reserve. Although the benefit payments covered only six months, they exceeded income by \$6 million.

Accruals to the fund for 1939 were 1.24 times the net benefit payments. The ratio of benefit payments to the fund ranged from a high of 19 per cent in the first quarter to a low of 10 per cent in the last quarter; at the close of the year the fund had declined to \$46.5 million.

³¹ Paul L. Stanchfield, "Adequacy of Benefit Duration in Michigan, 1938-39, A Survey of Experience in a Minor Depression." *Social Security Bull.*, 3, No. 9 (1940): pp. 19-28.

Owing to increased activities in the war industries, contributions for 1940 increased and benefit payments declined with the result that the income amounted to almost twice the amount of benefit payments. The ratio of benefit payments to the fund ranged from 17 per cent in the third quarter to 4 per cent in the fourth quarter. The unused balance in the fund at the end of the year had risen to \$69.6 million.

The year 1941 witnessed still greater increases in the fund and larger reductions in benefit payments. The income for this year was $4\frac{1}{2}$ times the net payments and the ratio of benefits to the fund ranged from 5 per cent in the third quarter to a 2 per cent in the second quarter. At the close of the year the unused fund had grown to \$124 million.

Following the attack on Pearl Harbor in 1941, the automobile industry was ordered to stop production causing 225,000 Michigan workers to be thrown out of employment. With reduced payrolls, the introduction of experience rating, and increased benefit payments in 1942, income still amounted to 1.59 per cent of disbursements. The ratio of benefit payments to the fund ranged from 13 per cent in the first quarter to 1 per cent in the last quarter. Notwithstanding these deterrents, the unused balance in the fund at the close of the year rose to \$142.5 million, an increase of \$18.6 million over the previous year. By June 30, 1944 the fund stood at \$232.3 million. For the six-month period preceding that date it required only 0.6 per cent of the fund to meet benefit payments and accruals amounted to ten times disbursements. For the nation as a whole, the average ratio of benefits paid to contributions collected fell to 6 per cent for 1943, as contrasted with 30 per cent in 1942 and 61 per cent in 1940.³²

The huge reserve which accumulated during the war period should be regarded as temporary and the product of most favorable circumstances. When a large fund accumulates, there is the temptation to increase benefits or reduce rates. The following statement of the commission indicates that it is well aware of large potential liabilities against the reserve.

³² *Social Security Yearbook, 1943* (Washington: U. S. Govt. Print. Off., 1943), p. 11.

Unemployment following the end of the last war, as well as the most recent experience with conversion unemployment leads to a belief that the heaviest unemployment claim load ever experienced in Michigan will accompany the reconversion to normal production when peace is won. Postwar unemployment may affect as many as 400,000 workers released from war production, with perhaps an additional 100,000 claimants coming from the ranks of service men demobilized following the end of the war. Practically all of this group will seek unemployment compensation to tide them over the period of industrial reconversion.³³

The Social Security Board has estimated the percentage of employed covered workers that could have been paid benefits for the maximum duration from the reserve on hand in each state on June 30, 1944. The percentages for Michigan and neighboring states were shown as follows:³⁴

State	Percentage of Covered Workers	Maximum Duration in Weeks
Illinois.....	53.6	20
Indiana.....	57.7	18
Michigan.....	39.7	20
Ohio.....	72.0	18
Pennsylvania.....	81.8	16
Average for United States.....	67.2	..

The rapidity with which a reserve can be reduced during a period of mass unemployment was demonstrated in the fiscal year ending June 30, 1939, when total payments amounted to \$56,461,000 and accruals to the reserve fund to only \$37,736,000, leaving a balance of \$19,725,000 to be paid from accumulated reserve.³⁵ Although \$257 million on hand on December 1, 1944 appears to be a huge sum, a large part of this may be needed to cover the risk of unemployment during the postwar reconversion period. If Michigan should have 500,000 claim-

³³ *Mich. Unemployment Comm., Biennial Rept., 1940-42, p. 53.*

³⁴ U. S. Social Security Bd., *Unemployment Compensation Abstract, op. cit.* . . . , pp. 8, 23.

³⁵ See Table XXIII, p. 93.

ants for unemployment benefits, payments would amount to approximately \$10 million a week and the reserve would be exhausted in about twenty-six weeks. It seems reasonable to assume that the reconversion period will continue over a period of six months to a year, and in this event many workers would have exhausted their benefits long before employment became available.

Benefits

Amount Allowed

For total unemployment the law provides a weekly primary benefit equal to 5 per cent of the worker's wages in that calendar quarter of his base period in which his wages were highest, but such payment must not be less than \$10 per week nor more than \$20. Subject to certain exceptions to be noted presently, the maximum duration of benefits is twenty weeks in any one benefit year. In addition to primary benefits the worker receives \$2.00 per week for each dependent child under eighteen years of age, or under twenty-one years of age if such child is unable to engage in remunerative employment because of mental or physical infirmity. The maximum payment payable to a worker with dependent children is an amount equal to the worker's average weekly wage for the quarter of the base period in which his earnings were greatest, or \$28, whichever is smaller. If the total base period wages are \$800 or more, total benefits must not exceed 25 per cent of such wages, but if total wages are less than \$800, the maximum total benefits cannot exceed 30 per cent of such amounts or \$300, whichever is smaller. Benefits which are available for each week of partial unemployment are equal to a full benefit payment, less 75 per cent of the wages earned each week, or less than the income earned in excess of \$3.00, whichever amount is smaller. Any activity during a week which yields \$2.00 or less constitutes total unemployment. At the discretion of the commission benefits may be extended for an additional eighteen weeks if the worker agrees to take a course in vocational training. The course must be approved by a local advisory council on which labor and employer are represented.

Eligibility for Benefits

In order to be eligible for benefits the insured worker must fulfill the following requirements: (1) file his claim in accordance with the regulations prescribed by the commission; (2) register at an employment office for work and continue to report to such office until employed; (3) be able to work and be available for full or part-time employment; (4) serve the required one week waiting period; (5) earn at least \$250 during his base period, part of which must have been received for work in each of two different calendar quarters of his base period; and (6) participate in a vocational training program if he has applied for an extension of benefits beyond the maximum period. Honorably discharged veterans of the armed forces of the United States, including women's auxiliaries, are eligible for unemployment benefits provided they are able to work and keep themselves available for employment.

The following conditions disqualify the worker for receiving benefits: (1) discharge for misconduct; (2) participation in a strike; (3) failure to apply for suitable work;³⁶ and (4) failure to repay benefits awarded illegally. If a worker claiming benefits is receiving workmen's compensation, old-age insurance, or other compensation under federal law, the commission may reduce his benefits to the extent of his income from any of these sources.

Comparative Amount of Benefits Paid in Michigan

A comparative analysis of unemployment compensation laws in effect in this country made by the Social Security Board shows that identical wages will not give the claimant the same or even similar benefit rights in most of the jurisdictions.³⁷ In

³⁶ Work is not considered suitable under the following conditions: (1) the position is vacant due directly to a strike; (2) the remuneration, hours, or other conditions of the work offered are substantially less favorable than those prevailing for similar work in the locality, and (3) worker is required to join a company union, resign from, or refrain from joining any bona fide labor organization.

³⁷ Social Security Board, *Unemployment Compensation Abstract, Program Statistics and Provisions of State Laws, 1937-1944* (1944), p. 20.

this study the weekly benefit payment, maximum potential benefits, and duration are shown for four hypothetical cases under the laws of the fifty-one states and territories. To summarize the comparative position of Michigan, as shown in this study, it may be said that the allowance of benefits on small earnings has been omitted in Michigan and six other industrial states for administrative reasons, whereas in the great majority of the jurisdictions, benefits of varying amounts are paid on small amounts of wages. For eligible workers with high-quarter wages of \$250 and base-period wages of \$500 or higher, Michigan may be regarded as liberal as compared with the majority of other jurisdictions. This liberality increases as the amount of income and steadiness of employment increases.

The adoption of experience-rating shows a tendency to adhere to commercial insurance principles; that is, for the amount of protection to correspond to the amount of premiums paid. States that pay benefits on small incomes disproportionate to the contributions made by the workers and that impose rates with little or no differentiation based upon experience lean toward the principle of social insurance. The supporting arguments for the latter policy are, first, that risks are spread more uniformly over the entire group of workers, and thereby prevents the placing of too large a share of the cost of unemployment upon employers and employees who are least able to bear the burden, and, second, greater assurance is given that a sufficient reserve will be accumulated to carry through reasonable periods of depression.

Exhaustion of Benefits

In a study for the benefit year ending June 30, 1939, Stanchfield found that 45.8 per cent of Michigan beneficiaries had exhausted their benefit rights before being re-employed.³⁸ The duration of benefits under Michigan law, like that in most other states, is governed by the total wages earned during the base period. Stanchfield's analysis showed a close relationship between the exhaustion ratio and the potential duration of bene-

³⁸ Paul L. Stanchfield, *op. cit.*, p. 22.

fits to which the claimants were entitled. In the group of beneficiaries whose duration reached the maximum of sixteen weeks, only 29.8 per cent had exhausted benefit rights as compared with the average ratio of 45.8 per cent for all covered workers. From the data analyzed, Stanchfield reached the following conclusion:

From these data it is clear that the workers who had been least regularly employed during the base period, and who were thus least likely to have accumulated savings to tide them over a long period of unemployment were the group for whom the benefit provisions of the Michigan law proved most inadequate in terms of duration. The attempt to maintain an arbitrary mathematical relationship between wage credits and benefit rights—on the theory that a worker's insurance rights should be related to the contributions previously paid on his behalf—is thus to a great degree responsible for the failure of unemployment compensation in Michigan during 1938 and 1939 to bridge the interval between jobs without compelling the unemployed worker to pass through the cumbersome and morale-destroying process of obtaining relief based on the proof of need.³⁹

Creamer and Wellman also made a study of the benefit year, ending June 30, 1939, for the purpose of determining the re-employment experience of beneficiaries who had exhausted benefit rights, and to ascertain what proportion of these had obtained general or work relief.⁴⁰ Analysis was made of a sample drawn at random from experiences of beneficiaries in Wayne County.⁴¹ This analysis disclosed the significant fact that only one-third of the beneficiaries were re-employed in covered employment⁴² in the quarter in which benefit rights were exhausted. About 30 per cent of this number were compelled to seek general or work relief. Another one-third were not employed by the end of the quarter following the first benefit year.

³⁹ *Ibid.*, pp. 27-28.

⁴⁰ Daniel Creamer and A. C. Wellman, "Adequacy of Unemployment Benefits in the Detroit Area During the 1938 Recession," *Social Security Bull.*, 3, No. 11 (1940): 3-11.

⁴¹ The number of beneficiaries in Wayne County constituted more than one-half of the state total.

⁴² Covered employment included workers with earnings of at least \$50.

The Michigan Unemployment Compensation Commission has made a statistical study of the duration and exhaustion of benefit payments for the years, 1940 and 1941.⁴³ The average number of potential weeks allowed for 1940 was 154.4 but only 7.7 weeks were actually drawn. Notwithstanding this situation 24.7 per cent of the claimants exhausted their benefits before obtaining employment. Slightly better results were shown in 1941 when the number of claimants exhausting benefits was reduced to 20 per cent. Claimants with low wage rates and benefits experienced considerably higher percentages of exhaustion than workers who qualified for high rates and longer duration. In 1941 only 8.7 per cent of the group receiving an average weekly wage of \$16 exhausted benefit rights, whereas 40 per cent of the workers who were earning an average of \$10 exhausted benefits before re-employment.

Inadequacies of the benefit provisions were recognized by the legislature and, in 1942, amendments were passed in an endeavor to strengthen this feature. The maximum potential weekly benefits were increased from \$16 to \$20 and the minimum from \$7 to \$10. The maximum duration was increased from eighteen weeks to twenty weeks and the minimum set at twelve weeks. The rate of the workers high-quarter wages used to determine the weekly benefit was increased from 4 per cent to 5 per cent. The commission redetermined the benefit rights under the amended law, and by analyzing the results it was possible to observe the effects of the amendments. The change in the base for computing the weekly benefit rights affected practically all claimants; the average weekly benefit payment increased from \$14.48 to \$18.13. Over one-half of the cases studied showed increases in duration. Under the amended act, 25.9 per cent of the claimants qualified for the 12 weeks minimum and 38.3 per cent for the maximum, whereas under the former law these percentages were 13.3 per cent and 68 per cent, respectively. The commission summarized the effect of the amendments as follows:

⁴³ *Mich. Unemployment Compensation Comm., Biennial Rept., 1940-42*, pp. 47-49.

The extended benefit provisions of the present Michigan law have been effective in carrying a large portion of Michigan's workers through their entire period of conversion unemployment, but even under the amended law a large portion of workers have exhausted their benefit rights before the end of their benefit year.⁴⁴

The commission reported that in the third quarter of 1942, 39.2 per cent of the claimants thrown out of work by war industry adjustment had exhausted their benefit rights.⁴⁵ The Social Security Board estimated that 10.7 per cent of Michigan beneficiaries had exhausted their benefit rights in 1943, and that for such claimants the average duration of benefits amounted to 14.2 weeks. The percentage of exhaustion of benefits in Michigan was low as compared with the great majority of the states.⁴⁶

NEED FOR STANDARDIZATION AND UNIFORMITY IN STATE UNEMPLOYMENT COMPENSATION ACTS

Comparative analysis of unemployment compensation acts reveals considerable variation in the standards among the fifty-one jurisdictions of this country where such laws are in effect. Disparities in the proportion of workers covered and the degree of protection afforded are emerging as subjects of major interest. Three points of view have developed with regard to uniformity and standardization of state unemployment compensation acts.

One point of view favors establishing certain minimum standards applicable to all states which, it is claimed, would not interfere with further experimentation.⁴⁷ According to this plan, federal standards would establish minimum benefit payments, below which any state could not go and reduce contribution rates. To accomplish this purpose, the federal requirements would affect a number of existing provisions of state laws, such

⁴⁴ *Ibid.*, p. 49.

⁴⁵ *Ibid.*, p. 39.

⁴⁶ Social Security Bd., *Unemployment Compensation Abstract, Program Statistics and Provisions of State Laws, 1937-44* (1944), pp. 8, 15.

⁴⁷ Interstate Conf. of Employment Securities Agencies, *Comm. on Experience Rating, Rept.*, Vol. II, *op. cit.*, pp. 14-25.

as minimum weekly payments, qualifying earnings requirements, partial unemployment, waiting period, disqualification for benefits, and duration.

The position taken by the Social Security Board is representative of a second point of view which is that only a federally administered and financed program can obviate the defects that have developed in many of the state plans.

To illustrate the difference in protection furnished in the several states, the Social Security Board has cited the following hypothetical case. A worker with a high quarter earnings of \$400 and annual earnings of \$1,000 would receive weekly benefits varying from \$11 to \$17 and total benefits ranging from \$100 to \$400, depending upon the state in which he earned his wages.⁴⁸ Each state is free to determine its own rate structure, which, in the opinion of the boards, has resulted in serious competition in payroll tax rate reduction. Benefit payments are made from funds held separately for each state, and inasmuch as employment varies widely some jurisdictions have more than enough to meet immediate and future needs while others may be hard pressed to meet their obligations.

The main arguments in support of federalization may be summarized as follows:⁴⁹ (1) pooling of state funds would furnish better protection to workers throughout the country than the present plan of maintaining a separate fund for each jurisdiction; (2) the cost of unemployment compensation would be equalized among the several jurisdictions and interstate competition in rate reduction could be eliminated; (3) a single tax return could be used for both unemployment compensation and old age insurance, thereby reducing the number of reports required of employers; (4) maritime workers who are now without protection because of legal difficulties encountered in the enactment of state law, could be covered; and (5) only a national uniformly operated plan would be adequate to meet the needs of the period immediately following the war and to achieve the long-run objectives of social security.

⁴⁸ *U. S. Social Security Bd., Seventh Annual Rept.*, 1942, pp. 15-23.

⁴⁹ *Ibid.*, Cf. A. J. Altmeyer, "Unemployment Insurance: Federal or State Responsibility?" *Nat. Mun. Rev.*, 32 (1943): 237-42, 280.

The conditions following the war which will demand federalization of unemployment compensation are described by the board in the following words:

The national character of the labor market has become indisputably clear in terms of the job of mobilizing the labor force and allocating available manpower in the ways which best will serve the needs of the nation. The task of relocating returned soldiers in civilian jobs and of demobilizing workers in war industries will bring problems at least equally comprehensive. In many states technological progress during the war may have drastically changed the industrial scene for workers whose experience was gained in prewar years. Young people who have undertaken their first jobs during the war or have gone from school into Army and Navy will require direction, and often training, to enable them to find their place in civilian pursuits. Extensive migration of workers and their families will be necessary in the readjustment of the country to peacetime activities.⁵⁰

A third point of view is that the states, if left to their own initiative, will work out a satisfactory plan for standardizing unemployment compensation by methods calling for co-operation among the states and with the federal government. The arguments produced by Paul A. Raushenbush, President of the Interstate Conference of Employment Security Agencies, are fairly representative of those opposing federalization.⁵¹ His main arguments may be summarized as follows: (1) our federal interstate system of unemployment compensation is now one of the important bulwarks of the democratic back-home government against undue centralization of the public business; (2) the states have made a great deal of progress during the past few years toward more adequate benefit protection—notably liberalization of benefit waiting periods which have been reduced in nearly all the states to less than one-half of their original levels; (3) there have been substantial increases in the weekly benefit amounts payable to unemployed workers; (4)

⁵⁰ *Ibid.*

⁵¹ Paul A. Raushenbush, "Unemployment Compensation: Federal-State Cooperation," *Nat. Mun. Rev.*, 32 (1943): 423-31; Cf. Interstate Conf. Employment Security Agencies, Comm. on Experience Rating, *Rpt. . . . Vol. III, Joint Minority Report, State Unemployment Compensation Laws and Unemployment Compensation Experience Rating* (Washington, 1940).

real progress has been made during the past few years in increasing the period of duration of benefits; (5) more than one-half of the state laws are now covering employers of less than eight workers, whereas the federal unemployment tax passed in 1935 still applies to employers having eight or more workers; (6) under the present interstate co-operative plan a worker may move from one state to another without losing his benefit rights; (7) the laws of forty-two states now authorize co-operative interstate arrangements for combining benefit claims of multistate workers; (8) the substantial benefit liberalization achieved by most states within the past few years leads to the belief that there has been more interstate rivalry to liberalize benefits than to hold them down; (9) national action might possibly level down as well as up and liberal states could no longer furnish the spearheads of experimentation and legislative advance which have been effective in the past in improving the present system; (10) most of the states apparently believe that their unemployment reserve funds will be adequate to meet their needs at the close of the war—nine states have required employers to pay higher war risk contribution rates in order to increase their reserves for the postwar impact; (11) reporting by multistate employers to the various jurisdictions is not so burdensome as is sometimes claimed, especially where the records are decentralized permitting each plant to report to the state in which it is located; (12) the administration of unemployment compensation is inherently more complex than that of federally operated old age insurance so that results achieved with the latter program might not be accomplished with the former; (13) experience rating roughly allocates the costs involved to specific plants and products thereby treating benefits as business costs rather than generalized social costs, and at the same time affords employers a concrete added inducement to provide the steadiest employment they possibly can.⁵²

RAILROAD UNEMPLOYMENT COMPENSATION⁵³

In 1933 the railway labor executives' association recom-

⁵² See pp. 147-51 for a summary and conclusion on unemployment compensation.

⁵³ U. S. Railroad Retirement Bd., *Ann. Rpts.*, 1937-43, *U. S. Code, 1940, Ed. and Suppl. to Dec. 22, 1942*, Title 45, Chap. 11.

mended that federal legislation be enacted providing for the payment of temporary benefits to the unemployed and the stabilization of employment in the railroad industry. In 1935 the President's Committee on Economic Security proposed the establishment of a separate nationally administered system of unemployment compensation for railroad employees and maritime workers. Stimulated by these efforts, Congress passed the Railroad Unemployment Insurance Act in 1938, and railroad employees formerly covered by private and state unemployment systems came under the jurisdiction of the national act.

Administrative Organization

The Railroad Unemployment Insurance Act is administered by the Railroad Retirement Board consisting of three members appointed by the President for a staggered term of five years. One member must be appointed from candidates recommended by the representatives of carrier employees and a second from recommendations by carriers. The third member, who acts as chairman of the board, is appointed without recommendations of either employers or employees.

Financing

Railroad unemployment compensation is financed by a tax collected from employers at the rate of 3 per cent of compensation payable to the employee up to \$300 per month. Ninety per cent of the collections is paid into the Social Security Unemployment Trust Fund and credited to the Railroad Unemployment Insurance Account maintained by the Secretary of the Treasury. Funds from this account are available to the Railroad Retirement Board for the payment of benefits. Ten per cent of the collections are paid into the railroad insurance administration fund and is used to pay the administration expense.

Coverage and Benefits

The Railroad Unemployment Insurance Act covers employees of railroads, express and sleeping car companies subject to the Interstate Commerce Act, and companies owned or controlled by these carriers which perform services in connection

with railroad transportation. In addition the act includes employee railroad associations, national labor organizations, and employee representatives.

In order to qualify for benefits, the worker must show that he has earned at least \$150 in covered employment during the base year.⁵⁴ The worker is disqualified for benefits under the following conditions: (1) voluntary leaving of suitable employment without good cause; (2) submitting fraudulent claims for benefits; (3) receiving annuities, benefits, or old age pensions or annuities under the Railroad Retirement Act or any other act of Congress; (4) receiving unemployment benefits under any other unemployment compensation system; (5) unemployment resulting from an unauthorized strike or a strike in violation of the Railway Labor Act unless the employee is not participating or does not belong to a class of workers who are taking part in the dispute. Benefit payments to workers paid on a

TABLE XXIV

SCHEDULE OF BENEFIT PAYMENTS TO UNEMPLOYED RAILROAD WORKERS

Compensation for Covered Employment During Base Year		Daily Benefit Rate	Maximum Amount in a Fourteen-day Period	Maximum Amount During Benefit Year
\$ 150 to \$	199.99.....	\$1.75	\$17.50	\$175
200 to	474.99.....	2.00	20.00	200
475 to	749.99.....	2.25	22.50	225
750 to	999.99.....	2.50	25.00	250
1,000 to	1,299.99.....	3.00	30.00	300
1,300 to	1,599.99.....	3.50	35.00	350
1,600 or more.....		4.00	40.00	400

mileage basis are subject to certain restrictions. The worker's claim for benefits must be submitted for periods of fourteen consecutive days beginning with the day of unemployment. Benefits for the first registration period in a benefit year are paid for each day of unemployment in excess of seven within the

⁵⁴ The base year is the calendar year preceding the benefit year, which is a twelve-month period beginning July 1 and ending June 30.

fourteen-day period. For the second and subsequent registration periods in the base year benefits are paid for each day of unemployment in excess of four. It is shown in Table XXIV that daily benefit payments vary from \$1.75 to \$4.00 depending upon the amount of wages received during the base year. The maximum amount of benefits payable during the base year is 100 times the employee's daily benefit payment.

COMPARISON OF FEDERAL RAILROAD UNEMPLOYMENT COMPENSATION SYSTEM WITH STATE UNEMPLOYMENT ACTS

The federal railroad unemployment compensation system is limited to one large industrial group whereas Michigan and other state systems cover a wide range of industrial and business employers. For the fiscal year 1942-43 wages in industry covered by state unemployment compensation systems represented 64 per cent of total wages paid in the United States while that for the railroad unemployment system was only 3.7 per cent of the total.⁵⁵ Benefits payable to railroad employees for a period of fourteen days continuous unemployment range from \$7.50 to \$40; under the Michigan act the range for a similar period is from \$20 to \$56. The railroad system has a simple method of computing benefits compared to that in effect in Michigan. The choice to use experience rating such as is employed in Michigan and most of the other states was not extended to carriers. In contrast to the state laws the railroad act is federally administered, operates uniformly in all the states, and all employers pay into a pooled fund at the same rate.

OLD AGE AND SURVIVORS INSURANCE⁵⁶

Old age insurance for wage earners was authorized by the Federal Social Security Act of 1935.⁵⁷ The original act provided

⁵⁵ *Social Security Yearbook, 1943* (Washington: U. S. Govt. Print. Off., 1943), p. 9.

⁵⁶ For a summary of the important facts and conclusions relative to old age and survivors insurance, see pp. 151-54 of this study.

⁵⁷ *U. S. Code*, Title 42, Chap. 7; Subchap. 2, secs. 4, 1, 410a; Subchap. 8, secs. 1001-11.

for old age insurance for wage earners only, but, in 1939, the scope of the law was broadened to include benefits for the members of the wage earner's family during the period of his retirement and after his death. The enlarged service is designated in the law as "federal old age and survivors insurance benefits" but will be referred to in this study as simply old age insurance. The purpose of old age insurance is to protect aged persons and their families from economic and social insecurity, and to supplement and reduce the need for old age assistance.⁵⁸

There are few who would question the need for old age insurance. The President's Committee on Economic Security estimated in 1935 that at least one-third of all our old people were dependent upon others for support.⁵⁹ This situation furnished a strong argument for compulsory insurance, and especially the type which encourages individual thrift and self-sufficiency. Such a plan assumes that the workers are able to save something out of their earnings and that the government should assist and encourage them to be self-supporting in old age insofar as possible through their own efforts.

ADMINISTRATION

The Federal Old Age Insurance System is administered by the Social Security Board, the United States Treasury Department, and a board of trustees. Briefly, the Social Security Board's responsibility consists of keeping the wage records and the handling of claims for benefits. The Treasury collects the taxes and makes the benefit payments when certified by the Social Security Board. The Social Security Act, as amended in 1939, created an ex officio board of trustees, consisting of the Secretary of Labor, the chairman of the Social Security Board, and the Secretary of the Treasury. The board is responsible

⁵⁸ Paul H. Douglas, *Social Security in the United States* (2d ed.; New York: McGraw-Hill Book Co., Inc., 1939), p. 157; John J. Corson, "The Impact of Old Age Insurance Upon Old Age Assistance," *Social Security in the United States. A Record of the Fourteenth Nat. Conf. on Social Security. Amer. Assn. Social Security, Inc., 1941*, p. 6.

⁵⁹ U. S. President's Comm. on Economic Security; *Rept. . . . with Supplement*, U. S. Govt. Print. Off., 1935, p. 2.

for the investment of the old age insurance trust funds in securities of the Federal Government and for making reports to Congress relative to the operation and status of these funds. The Secretary of the Treasury acts as the managing trustee.

ELIGIBILITY

The Social Security Act, Title 2, as amended, provides that persons who become sixty-five years of age, and have qualified under the law, will receive a monthly payment for the rest of their lives. The wife of the insured will also receive benefits if she has reached the age of sixty-five. If not, she becomes eligible when she reaches that age. Upon the death of the insured wage earner, his widow and minor children or his dependent parents are eligible for monthly or lump sum insurance payments if they meet certain requirements. If he has no family, a lump sum may be paid toward his funeral expenses.

The Social Security Act of 1935 provided for the payment of benefits beginning January 1, 1942, but this date was changed to January 1, 1940, by a 1939 amendment. In order to determine the amount of benefits to which each worker is entitled when he retires at sixty-five or over, a social security account is kept. Employment, as defined by the act, consists of any service performed within the United States, Alaska, Hawaii, or the District of Columbia by an employee for his employer, except the following: agricultural labor; domestic service in a private home; casual labor not in the course of the employer's trade or place of business; services on non-American vessels if employed when outside the United States; services performed in the employment of federal, state, or local governmental agencies; service performed in the employment of certain organizations conducted entirely on a nonprofit basis.

The Social Security Board now considers it desirable to extend old age insurance coverage to practically all employees and even to small employers and the self-employed.⁶⁰ The board has

⁶⁰ U. S. Social Security Bd., *Seventh Ann. Rept.* . . . , 1942, pp. 17-18; Cf. I. S. Falk, Director of Research and Statistics, U. S. Social Security Bd., "Foreward: A Balance Sheet of Social Security in 1942," *Social Security Yearbook*, 1942, pp. 1-7.

estimated that 16.7 per cent of all wages and salaries paid in Michigan were not covered by old age insurance as of April 13, 1943. This was less than the 26.8 per cent average for all states and lower than that found in other states except Connecticut.⁶¹ Workers who shift between covered and noncovered employment either fail to qualify or get smaller benefits than they would if all employment were covered. Many workers who are now acquiring wage credits in wartime industries will lose their protection when they return to previous uncovered occupations. Persons called from covered employment to federal civilian service will either lose their insurance status based on the wage credit acquired in the past or eventually receive smaller benefits.

Shortages of labor, unavailability of many kinds of goods, rationing, price ceilings, and rising costs have made it increasingly difficult for small operators to stay in business, with the result that thousands have closed their doors and accepted employment in war industries. Many of these are too old to begin again in a new occupation and even at best they have little more security than the majority of wage earners. A. J. Altmeyer, Chairman of the Social Security Board, reported in 1943 that former self-employed persons are keenly aware of the benefit rights which they have accumulated as employees of wartime industries and which will be lost when they return to independent business.⁶² Many appeals are being received by the board and Congress for an opportunity to continue contributions so as to maintain potential benefits credited to their accounts.

Altmeyer stated that there is a demand from independent employers for the same type of protection they are helping to provide for their employees. Small individual employers, such as retail merchants, men practicing professions, and manufacturers, urge that some plan be devised whereby they may be in-

⁶¹ *Social Security Yearbook, 1942* (Washington: U. S. Govt. Print. Off., 1942), p. 30.

⁶² A. J. Altmeyer, "Old Age and Survivors Insurance for Small Business Men," *Social Security Bull.*, 6, No. 10 (1943): 3-4.

cluded in the program. Administrative difficulties have been the principal objection to including small business men in the old age insurance program, for it is claimed they do not keep the necessary records to facilitate income reporting of this type.⁶³ According to Altmeyer, a plan has now been developed which would require the minimum of detailed records. This plan entails the use of the income tax form for reporting social security contributions.

BENEFITS

The worker must have received at least \$50 in each of a minimum number of calendar quarters in order to qualify for benefits. "Quarter of coverage" consists of a period of three calendar months beginning on January 1, April 1, and October 1. The amount of benefits paid depends upon the worker's average monthly wage up to \$250 a month. The worker's benefit—called a "primary benefit"—is computed by taking 40 per cent of the first \$50 of his average monthly pay, adding 10 per cent of the rest up to \$250, and then adding 1 per cent of this sum for each year in which he was paid \$200 or more on covered jobs. If the "primary benefit," as computed above, is less than \$10, it is raised to that amount.

In addition to the amount paid to the worker upon retirement, his wife, a child, or a dependent parent sixty-five years old or over is each entitled to a monthly payment of one-half of the "primary benefits." His widow at sixty-five years of age receives three-quarters of the amount of her husband's "primary benefit." A dependent parent sixty-five years old or an orphaned child is each entitled to one-half of the "primary benefit" upon the death of the worker.

Total monthly benefits that may be paid upon one worker's account may not be less than \$10 a month and cannot exceed the smallest of the following amounts: (1) twice the "primary benefits," (2) 80 per cent of the worker's average wage, (3) or \$85.

⁶³ Fred Safer, *Small Business Problems: Small Business Wants Old Age Security* (78th Cong., 1st Session, Senate Comm., Print, No. 17, Washington: U. S. Govt. Print. Off., 1943).

As of March 30, 1943, there were 24,565 Michigan workers or families who had monthly benefit payment status under old age insurance. The total amount required to meet these payments was \$450,421, or an average of \$18.03 per beneficiary.⁶⁴

The Social Security Board believes that experience has demonstrated the need for liberalizing benefit provisions of the Social Security Act in certain respects.⁶⁵ One of these is the extension of retirement benefits to workers who become chronically disabled before reaching sixty-five years of age. In support of this view, the board cites the fact that substantially all important retirement systems in the United States and the laws of nearly all other major countries provide for payment of benefits to employees who are unable to continue work because of chronic disability. According to the board, in many instances advanced age of itself is a less devastating risk to independence than physical incapacity at a younger age when the burden of family support is usually the heaviest. A worker ordinarily has little or no social insurance protection against disability before he reaches sixty-five years of age except for limited provisions under workmen's compensation laws.

Another way in which the board feels the benefit provision should be liberalized is to lower the age at which the wife of an annuitant is entitled to receive benefits. At present only about 42 per cent of the wives of primary beneficiaries have reached sixty-five years of age or over and are receiving benefits. According to the board, the requirement should be lowered to the age of sixty for widows and female primary beneficiaries. If the wife of a beneficiary is responsible for the care of children, the board believes that she should receive benefits irrespective of her age; also that benefits paid to parents should be increased to 75 per cent of the primary benefit of the deceased wage earner where it can be shown that he was their chief support.

⁶⁴ *U. S. Social Security Yearbook 1942* (Washington: U. S. Govt. Print. Off., 1943), p. 141.

⁶⁵ *U. S. Social Security Bd., Seventh Ann. Rept., 1943*, pp. 17-18.

PAYROLL TAX RATES

Workers and their employers share the cost of the old age insurance system. Schedules of rates provided in the original law enacted in 1935 as compared with the present rates established by subsequent amendments are shown in Table XXV.

TABLE XXV
OLD AGE AND SURVIVORS INSURANCE RATE SCHEDULES

Calendar Years	Percentage Payments on Wages and Salaries of \$3,000 or Less			
	Rates Under Original Social Security Act of 1935		Rates Established by Amendments to 1939 Laws	
	Employer	Employee	Employer	Employee
1937-1939	1	1	1	1
1940-1942	1½	1½	1	1
1943-1945	2	2	2*	2
1946-1948	2½	2½	2½	2½
After 1948	3	3	3	3

* The 1 per cent rate was extended through 1945 by amendment passed in 1944.

The original rate schedule provided for a gradual increase in rates from 1 per cent in 1939 to 3 per cent in 1948. By later amendments the 1 per cent initial rates have been extended through 1945. Both employer and employee contributions are designated as taxes in the statute. The so-called taxes resemble contributions or insurance premiums, and according to some students may reasonably be classified as such.⁶⁶ There are others who contend that the contributions to the fund are more in the nature of taxes.⁶⁷

DISTRIBUTION OF THE BURDEN OF PAYROLL TAXES

The prevailing view among economists is that the burden of the income tax paid by employees is almost certain to remain on the contributors. The burden of the tax on employer payrolls

⁶⁶ Harold M. Groves, *op. cit.*, p. 375.

⁶⁷ National Tax Association, Committee on Social Security Legislation and Administration, "Report," *Proc. Thirtieth Ann. Conf.*, 1937, pp. 64-65.

is distributed similarly to those imposed for unemployment compensation, which, as previously explained, is likely to be borne mainly by employees, although it is possible that some of the burden may be shifted forward to the consumer or backward to the employer.⁶⁸

It is shown in Table XXVI that the proportion of tax to income is the same up to and including \$250 of earnings; but if the income is in excess of this amount, the effective rate decreases as income increases. The benefit payment is 75 per cent of income if it is \$50 per month or less, but if it is in excess of this amount, the percentage of benefit payments of income received decreases as income increases.

TABLE XXVI
INCOME TAX RATE AND BENEFITS FOR SELECTED INCOMES
(Twenty-five years Coverage)

Average Monthly Wage	Taxes Paid at 1 Per Cent	Ratio of Tax to Income—in Per Cent (1944 Rate)	Full Monthly Benefits Received by Worker and Wife at 65 Years of age and Over	Ratio of Benefits to Income—in Per Cent
\$ 20 and under	\$0.20	1	\$15.00	75.0
30	0.30	1	22.50	75.0
40	0.40	1	30.00	75.0
50	0.50	1	37.50	75.0
75	0.75	1	42.20	56.4
100	1.00	1	46.88	46.8
125	1.25	1	51.57	41.3
150	1.50	1	56.25	37.5
175	1.75	1	60.95	34.8
200	2.00	1	65.63	32.8
225	2.25	1	70.32	31.2
250	2.50	1	75.00	30.0
275	2.50	0.9+	85.00	30.0
300	2.50	0.8+	85.00	28.3
400	2.50	0.6+	85.00	21.2
500	2.50	0.5+	85.00	17.0
1,000	2.50	0.25+	85.00	8.5

⁶⁸ See pp. 91-92.

OLD AGE INSURANCE RESERVES

The development of any retirement system naturally involves a long period of expanding payments for benefits. Persons eligible for retirement benefits at the end of the first year are relatively few, but each year thereafter the number reaching the retirement age increases. It will require a generation before the peak of annual benefit payments is reached under the present plan.

The plan for putting into operation the Social Security Act of 1935 provided for the accumulation of an actuarial or full reserve, which, it was estimated, would amount to \$47 billion in 1980. As previously mentioned, the 1939 amendment of the Social Security Act lowered the rates in the early years of the program and set back the time for beginning benefit payments from 1942 to 1940. The amendment also eliminated the provision which required an accumulation of the actuarial reserve and established in its place a contingency reserve.⁶⁹ The Board of Trustees is required to submit a report to Congress at the beginning of each regular session, containing a statement describing the operation of this fund for the preceding fiscal year, and an estimate of income and expenditures for each of the five ensuing years. The board is further charged with the duty of reporting immediately to Congress when in its opinion this fund will exceed three times the highest annual expenditures anticipated for the next five years. Certain members of the Senate interpret the latter requirement as fixing the limits of a contingency reserve while others deny that such was the intention of Congress.⁷⁰ The Social Security Board has estimated that by about 1955 benefit payments under the present plan will exceed the annual payroll tax receipts, and, unless Congress provides additional funds, it will be necessary to draw upon the contingency reserve fund at that time or make other arrangements to cover the deficits.⁷¹

⁶⁹ James S. Parker, *Social Security Reserves* (Washington: Amer. Council of Public Affairs, 1942), pp. 66-80.

⁷⁰ *Congressional Record*, 90 (Jan. 11, 1944, temp. file): 37-50.

⁷¹ U. S. Cong., House Comm. Ways and Means, *Social Security Act Amendments of 1939. . . . Rpt. to Accompany H.R. 6635* (78th Cong., 1st Sess., H. Rept., No. 728, Washington: U. S. Govt. Print. Off., 1943), p. 15.

Federal revenues, exclusive of social security payroll taxes, have not been sufficient to meet total expenditures for all purposes and the receipts from payroll taxes have been applied to the deficit since the adoption of the Social Security Act. Proceeds of these taxes, over and above the amount used to make benefit payments under the Social Security Act, have not been sufficient to finance the entire deficit, but their use has reduced the amount of borrowing from the public which otherwise would have been necessary to supplement general tax revenues. The act provides that all funds which are not needed currently for the payment of benefits shall be invested in treasury certificates. Instead of purchasing outstanding securities and thereby reducing the national debt, the Federal Government has issued new interest bearing obligations and credited them to the old age insurance account in exchange for payroll tax proceeds.

Actuarial Reserve Versus "Pay as You Go"

A difference of opinion arose concerning methods of financing old age insurance before the present plan was adopted. One group supported a plan which provided for the payments of old age benefits entirely from payroll taxes by building up an actuarial reserve which would spread the financial cost over the productive life of individual workers.⁷² An opposing group advocated the "pay as you go" plan; that is, to pay benefits as they mature from payroll taxes and to accumulate a small contingency reserve. Arguments for and against these two plans will be reviewed briefly in this section.

One of the major aims of an old age insurance reserve, as stated by the Social Security Board, is "the budgeting of cost, according to an orderly plan which will effect a wise distribution between present and future payments."⁷³ The actuarial reserve plan, it is claimed, relieves future taxpayers by introducing heavy assessments on the present generation. Moreover, the presence of Federal Government securities in the reserve fund

⁷² For a detailed examination of an actuarial plan, see Seymour E. Harris, *op. cit.*, p. 199-282; cf. J. S. Parker, *op. cit.*

⁷³ *U. S. Social Security Bd., Ann. Rept.*, 1936, p. 14.

strengthens the likelihood that contributing workers would receive their benefits, inasmuch as there is set up a definite obligation which is not dependent solely on future congressional policy.⁷⁴

There is wide support for the so-called "pay as you go" plan.⁷⁵ This group holds that a large reserve is not necessary for the protection of beneficiaries because of the power of the Federal Government to impose necessary federal taxes to cover all benefit payments in the future as they fall due; and that such a plan would avoid certain dangers inherent in the accumulation of a large reserve. One of the dangers on which considerable emphasis has been placed is the encouragement and temptation to excessive borrowing and spending on the part of the Federal Government.⁷⁶ It is argued that transference of the debt from the public to a reserve account would render ineffective the usual deterrents to borrowing such as interest rates, bank credit, and price levels. This argument is based upon the assumption that the government responds only to negative pressure in determining the extent of its borrowing and ignores the possibility of positive restraints, such as the preservation of its credit and the fact that there may be no important purposes to be achieved in continuing to borrow.⁷⁷

Another objection raised to an actuarial reserve by a number of critics is that the existence of such a reserve would lead to great pressure by the insured workers for liberalization of benefits and would serve as a constant incentive to raise the level of payments. Those opposing this view have replied that the reserve brings into the open the direct relationship between contributions and benefits with the result that the pressure for more liberal benefits is reduced. There is probably as much or greater possibility of demands for increasing benefits during the early years of the "pay as you go" plan because of the com-

⁷⁴ Harris, *op. cit.*, p. 175.

⁷⁵ For a survey of the literature of this view, see Harris, *op. cit.*, 68, 164, 246.

⁷⁶ Nat. Tax Assn., Comm. on Social Security, *op. cit.*, pp. 75-78.

⁷⁷ Groves, *op. cit.*, 382-83.

parative small levies required in the early years to pay the matured benefits.⁷⁸ As stated by Parker, the "owe as you go" plan, which name he substitutes for "pay as you go" plan, is a greater temptation to federal extravagance than a reserve system because federal budgets will look deceptively better and the public debt will look deceptively smaller.⁷⁹

Critics of the actuarial reserve plan make the point that general taxes would have to be raised to pay interest on the reserve. Paying of interest on the obligations issued to the reserve account is frequently mistaken by critics of the reserve plan as a contribution to the old age insurance fund by the Federal Government. In correcting this misunderstanding, A. J. Altmeyer made the following explanation:

... I think you have to distinguish between the interest earnings of a reserve and a direct government contribution to the system. While the interest earnings on the reserve are raised presumably through general taxation, the citizens who pay the taxes to cover the interest earnings have received a quid pro quo in the past, because they have had the use of the money that the contributors have paid into the treasury under the old age insurance system.⁸⁰

Another criticism of the actuarial reserve is that it may prove deflationary, inasmuch as it diverts purchasing power and impounds it in the reserve fund. Admittedly, this would be a weakness, especially during a period of depression when consumers are encouraged to spend rather than to save. Such an objection, however, is not a conclusive argument against the use of a reserve for there are steps which may be taken to overcome these negative effects.⁸¹ For example, the government could purchase bonds from the banks which would have the effect of expanding bank credit and encouraging private loans.

⁷⁸ *Ibid.*, p. 383.

⁷⁹ Parker, *op. cit.*, 216.

⁸⁰ A. J. Altmeyer, "Statement," *Social Security, Hearings Relating to the Social Security Act Amendments of 1939*, U. S. Cong., House Comm. on Ways and Means, 76th Cong., 1st Sess. Rev. Print (Washington: U. S. Govt. Print. Off., 1939), p. 2278.

⁸¹ Groves, *op. cit.*, 383.

Should there not be sufficient demand for bank loans to maintain an adequate circulating supply of money and credit, the government might make private loans more attractive or promote a program of government investment in self-liquidating public works. At the present time (1944) the use of payroll tax proceeds in excess of current operating costs for general federal purposes has the desired result of diverting consumer purchasing power into the war effort.

Some critics of the actuarial reserve plan believe that it may tend to cause inflation. This criticism is usually based upon the assumption that the reserve funds may be used to retire federal securities held by private investors.⁸² Should this occur individuals and institutions would be forced to seek other means of investment with the result that funds in the money market would increase, and interest rates tend to decline. With capital plentiful at low rates of interest, considerable expansion of business activity is possible. Such developments frequently become self-accelerating and may result in the investment of all federal funds turned back into the market as well as funds from other sources. Advocates of the actuarial or full reserve believe that the so-called "pay as you go" plan is likely to cause inflation.⁸³ Ultimately the large deficits which are accumulating must be financed, and if it should not be possible to meet these obligations by increasing payroll or general taxes, it will be necessary to go further into debt in order to make the larger benefit payments occurring later in the program.

Finally, it is contended that borrowing from the reserve fund may force the government to remain in debt in order to supply the necessary investment and thereby prevent the liquidation of its outstanding obligations which otherwise would have been possible. Owing to large deficits incurred during the depression

⁸² Representative of this theory is Birchard E. Wyatt and William L. Wandell, *The Social Security Act in Operation* (Washington: Graphic Arts Press, Inc., 1937), p. 161.

⁸³ See E. E. Witte, *Thoughts Relating to Old Age Insurance, Titles of the Social Security Act and Proposed Changes Therein, Revision of Statement Presented to the Social Security Advisory Council of the U. S. Social Security Bd., Feb., 18, 19, 1938*, pp. 24-25.

of the nineteen-thirties and now being increased by the war program, it will not be necessary to increase the debt for the purpose of maintaining a reserve fund for many years to come. An actuarial reserve under certain circumstances, however, may be a factor in bringing about the result which its critics fear. This argument is based upon the assumption that in the future there will be no investment available for the reserve fund other than federal securities. Parker has suggested the possibility that other investments may be made eligible, such as state and municipal bonds and even the securities issued by private concerns; also that the funds may be invested in productive private enterprises.⁸⁴

After an extensive study of old age insurance financing, Harris reached the conclusion that the weakness of the "pay as you go" policy lies in the difficulty of assuring adequate benefits to later generations through subsidies out of current tax revenues.⁸⁵ In his opinion, if Congress would pay maximum benefits and permit modest rises in the tax rates during the early years of the program, the country might be assured of a willingness to impose larger sacrifices later.⁸⁶

The plan for financing old age insurance became a live issue again in 1943 and in 1944. The occasion for reconsideration of this problem was the approaching expiration date of the 1 per cent payroll tax rates and the automatic increases to 2 per cent in the succeeding year.⁸⁷ The advocates of the so-called "pay as you go" plan favored freezing the 1 per cent rates for another year and cited the recent substantial increases in the reserve fund in support of their position. Owing to war conditions workers eligible for benefits have continued in or returned to covered employment with the result that contributions were increased and benefits postponed. According to data shown in Table XXVII, annual income of the fund was over seven times expenditures for the period, 1941-43, and total assets were

⁸⁴ For an able treatment of investment of insurance reserves, see Parker, *op. cit.*, pp. 217-36.

⁸⁵ Harris, *op. cit.*, pp. 175-76.

⁸⁶ *Ibid.*, p. 246.

⁸⁷ For detailed arguments on both sides of this question, see *Congressional Record*, 90 (Jan. 11, 1944, temp. file): 37-50.

twenty-four times disbursements for the fiscal year 1942-43.

TABLE XXVII
OLD AGE AND SURVIVORS INSURANCE TRUST FUND*
(In Millions)

Fiscal Year Ending June 30	Transfers and Appropriations†	Interest	Benefit Payments	Reimbursements for Administrative Expenses	Balance End of Period
1937	\$265	\$ 2	...‡	...	\$ 267
1938	387	15	\$ 5	...	777
1939	503	27	14	...	1,180
1940	550	42	16	\$12	1,745
1941	688	56	64	27	2,398
1942	896	71	110	27	3,227
1943	1,130	87	149	27	4,268

* U. S. Social Security Board, *Eighth Annual Report*, 1943, p. 94.

† Beginning July 1, 1940, trust fund appropriations equal taxes collected.

‡ Less than \$500,000.

The Social Security Board has estimated that the highest annual expenditures for the period, 1943-48, would amount to between \$415 million and \$813 million. The reserve at the end of 1943 was about eleven times the low estimate and over five times the high.⁸⁸ According to one point of view the above described reserve is more than sufficient to satisfy legal requirements and will be adequate to meet any probable increases resulting from postwar decline in business activities as well as the long-time gradual rise in benefit payments.

The Social Security Board and certain members of the Senate took an opposite position to that described above. In the opinion of this group, increased liabilities of the fund growing out of war conditions will extend many years beyond a five-year period. According to the board, actuarial calculations indicate a steeply increasing annual cost and eventual disbursements from fifteen to twenty times the present rate. It is estimated that a deficit of nearly \$13.5 billion has already been created by postponing rate increases. The main reason for establishing a gradu-

⁸⁸ *Ibid.*, p. 43.

ated schedule of rates was to give employers, employees, and the public an opportunity to become adjusted to the changes. Indefinite postponement of rate increases will necessitate either sharp increases later in the program or a resort to subsidies from general taxes. The board believes that failure to allow the automatic increases to become effective as originally scheduled is creating uncertainty in the minds of the insured, and violates the principles of both equity and sound finance.

As explained by Altmeyer, chairman of the board, persons retiring during the early years of the old age insurance program should contribute at a higher rate than 1 per cent, inasmuch as the actuarial value of their benefits is many times the value of their contributions. For example, a single individual who receives the maximum salary and contributes for a period of ten years might be entitled to \$44.00 per month or twenty-two times the amount purchaseable from an insurance company for the same amount. A married man receiving the maximum taxable salary might receive as much as \$66.00 per month or thirty-three times the value of his contributions. Failure to charge reasonably adequate rates during the early years of the program will result in inequitable treatment of persons who have contributed to the system many years before receiving benefits. It is possible to continue this policy to a point where future beneficiaries will be obliged to pay more for their protection than if obtained from a private insurance company.⁸⁹

SHOULD THE FEDERAL GOVERNMENT SHARE THE COST OF OLD AGE INSURANCE?

According to estimates, as previously explained, it will be necessary by about 1955 to provide funds in addition to the current payroll taxes to meet benefit payments. At the time the shift was made from an actuarial reserve basis to a "pay as you go" plan in 1939, no definite provision was made to meet benefit payments when they exceed the payroll taxes. To raise the additional funds it will be necessary to take one or more of the following steps: (1) draw on whatever contingency fund may have accumulated, (2) increase the payroll taxes, (3) lower bene-

⁸⁹ *Ibid.*, pp. 48-49.

fit payments, or (4) pay deficits from general federal taxes. When the Social Security Act of 1935 was being considered, the Committee on Economic Security recommended that the cost of old age insurance be shared by employers, employees, and the Federal Government.⁹⁰ There is ample precedent in the history of social insurance for government participation and it is still regarded by some students as the best policy.⁹¹

The attempt to carry out any of the above policies at a later date is likely to raise a storm of opposition from powerful groups. If the scope of coverage has not been broadened to include the great majority of workers, taxpayers will object to supporting an insurance system under which many receive no benefits. In the event an attempt is made to raise rates on employers and employees sufficiently to maintain benefits on past levels, objections will be raised on the grounds of paying costs which past beneficiaries should have assumed. Although beneficiaries have not made an equitable contribution in the past to the cost of their protection, they will probably protest any proposed reduction in benefits which they have been led to believe would be received. If the present policy of low rates is continued, sharing of costs by the Federal Government probably will be chosen as the means of raising the additional revenues needed to meet the larger benefit payments required later in the program, especially if the coverage has been extended to include most workers.

THE RAILROAD EMPLOYEE RETIREMENT SYSTEM⁹²

Retirement plans for railroad employees were provided by the individual railroads as early as 1900, and by 1933, 80 per

⁹⁰ U. S. President's Committee on Economic Security, *Report* (Washington: U. S. Govt. Print. Off., 1935), pp. 33-34.

⁹¹ Parker, *op. cit.*, p. 187; cf. Twentieth Century Fund, Comm. on Old Age Security, *More Security for Old Age, a Report and a Program* (New York: Twentieth Century Fund, Inc., 1937), pp. 153-54.

⁹² U. S. Railroad Retirement Board, *Ann. Repts.*, 1937-43; *U. S. Code*, 1940 *Ed. and Suppl. to Dec. 23, 1943*, Title 45, Chaps. 9 and 10; Arthur E. Burns and Edward A. Williams, *Federal Work Security and Relief Programs* (U. S. Work Projects Admin., Research Monog., XXIV, Washington: U. S. Govt. Print. Off., 1941).

cent of railroad and express employees were covered by these plans. For a number of reasons the retirement plans operated by carriers were not entirely satisfactory. There were no adequate legal safeguards for the protection of employees' rights to benefits and to give assurance that payments would not be reduced during financial crises. Coverage of workers who changed employers were limited by technical difficulties. Eligibility for benefits and the amount of payments varied greatly among the different carriers and some of these had failed to make any provision for retirement benefits.

To meet the need of railroad workers for a more adequate retirement system, the federal Railroad Retirement Act was passed in 1934. This act was contested by the railroads and declared unconstitutional by the United States Supreme Court in 1935.⁹³ A new act was passed by Congress in 1935 and was declared unconstitutional in part by a federal district court the following year. The Railway Labor Executives' Association and the Association of American Railroads agreed on a substitute plan of retirement, which was embodied in the Amendatory Railroad Retirement Act of 1937 and the Carriers' Taxing Act of the same year. The provisions of the 1935 Act which were not declared unconstitutional were not repealed and employees who relinquished their rights to return to service before June 24, 1937 receive benefits under this act.

ADMINISTRATION

The railroad retirement system is administered by the Railroad Retirement Board.⁹⁴ The act authorizes the appointment of an Actuarial Advisory Committee of three members, one member of this committee is appointed by the board from candidates recommended by employee representatives; a second from recommendations by employer representatives, and a third by the Secretary of the Treasury. It is the duty of the commit-

⁹³ *Railroad Retirement Board v. Alton Railroad Company*, 295, U. S., 330 (1935).

⁹⁴ See p. 109 of this study for description of the personnel of the board and method of appointment.

tee to examine the actuarial reports and estimates made by the board and to recommend changes which it considers necessary in actuarial methods. The board is required by law to include in its annual report a statement of the status and operations of the railroad retirement account, and at intervals of not less than three years to make estimates of its liabilities for the payment of benefits.

FINANCING

Separate annual appropriations are made by Congress for the payment of benefits and administrative expenses. The Carriers' Taxing Act of 1937 imposed an income tax on the wages of employees up to \$300 per month at the following rates: $2\frac{3}{4}$ per cent from 1937 to 1939, 3 per cent from 1940 to 1942, $3\frac{1}{4}$ per cent from 1943 to 1945, $3\frac{1}{2}$ per cent from 1946 to 1948, and $3\frac{3}{4}$ per cent after 1948. In addition the act imposes an excise tax on the employer measured by the payroll tax on compensation of employees up to \$300 per month at the above rates. The taxes are collected quarterly by the Bureau of Internal Revenue and deposited in the general account of the United States Treasury. Although the act does not provide that appropriations for benefit payments and administrative expenses shall be equal to the amount of revenue collected under the Carriers' Taxing Act, this practice has been followed. Any surplus of current needs for operation must be held as reserve and invested by the board in any one of the following securities: (1) United States obligations yielding not less than 3 per cent interest, (2) obligations guaranteed as to both principal and interest by the Federal Government and yielding not less than 3 per cent interest, and (3) special obligations issued at par to the railroad retirement account and bearing interest at the rate of 3 per cent.

Table XXVIII shows the financial operations of the railroad retirement system for the fiscal years 1939-44, inclusive. During this period tax collections rose 144 per cent while net retirement benefit payments increased only 21 per cent. The ratio of administration expenses to net benefit payments dropped steadily from 2.7 per cent in 1939 to 1.7 per cent in 1944, and for the

five year period they averaged 2.2 per cent. Total expenditures for benefits and administration rose steadily from \$110 million to \$137.5 million, representing an increase of 25 per cent. On June 30, 1944, the unexpended balance in the railroad retirement account amounted to \$321.1 million, an amount equal to 237.5 per cent of net benefit payments for that year.

TABLE XXVIII

FINANCIAL OPERATIONS OF RAILROAD RETIREMENT SYSTEM*

1939-1944

(In Thousands of Dollars)

Fiscal Year Ending June 30	Tax Collections	Funds Available from Appropriation Account and Interest on Investments	Net Benefit Payments	Expenditures for Administration	Total Expenditures	Unexpended Balance in R. R. Retirement Account June 30
1939	\$109,257	\$109,296	\$107,131	\$2,918	\$110,049	\$ 62,812
1940	120,967	122,933	114,025	2,810	116,835	71,719
1941	136,942	126,884	121,800	2,905	124,705	76,803
1942	170,012	143,993	126,657	2,879	129,536	94,140
1943	208,795	220,578	130,864	2,847	133,721	183,854
1944	267,065	296,636	135,215	2,375	137,590	321,195

* U. S. Railroad Retirement Board, *Annual Rept.*, 1944.

The board is charged with the duty of making an actuarial valuation of the liabilities created at intervals of not longer than three years. It is the duty of the Actuarial Advisory Committee to examine the actuarial methods employed by the board and to recommend changes when considered necessary. The major factors involved in estimating the cost of the system are age distribution of employees, ages at which they are retired, rate of withdrawal from the industry before retirement, rate of disability, change in the level of compensation by age, rate of mortality among active employees and annuitants and ages at which new employees begin in service. Underlying all these factors are the basic economic conditions which will determine the level of employment and payrolls in the whole industry.

According to the valuation made by the actuarial committee

for the three year interval ending December 31, 1941, the tax rates then in effect were sufficient to support benefit payments for a comparatively short period. Short range projections of income and disbursements indicated the strong probability that revenues would exceed disbursements for three or four years following 1941, and should this situation be reversed in the succeeding decade, it would be necessary to increase the present rates by 1955.

Although the board was convinced in 1943 that additional taxes would be necessary to finance the benefits provided, it recommended postponement of any increase in rates at that time inasmuch as income and reserve were adequate for immediate requirements and delay in changing rates until after the next valuation would permit of better estimates of future liabilities. Moreover, changes in benefit payments were under consideration which might affect the tax structure.

COVERAGE AND BENEFITS

The Railroad Retirement Acts of 1935 and 1937 cover employees of railroads, sleeping cars, and express companies subject to the Interstate Commerce Act; companies owned or controlled by these carriers that are engaged in performing services in connection with railroad transportation; employees of railroad associations and national railway labor organizations, and employee representatives.

The worker is eligible for benefits if he can meet any one of the following conditions: (1) that he is sixty-five years of age or over; (2) that he is sixty years of age and has completed thirty years of service;⁹⁵ (3) that he is sixty years of age and permanently disabled; (4) that he has completed thirty years of service and is permanently disabled. The amount of the monthly annuity payable for disability or age is determined by multiplying the number of years of service by the following percentages of compensation up to \$300: 2 per cent on the first \$50, 1½ per cent on the next \$100, and 1 per cent on the next \$150.

Annuities are also payable to the surviving spouse if the de-

⁹⁵ Credit is given for military service under certain conditions.

ceased employee agrees to receive a reduced annuity during his lifetime. The annuity payable to the survivor may be equal to 75 per cent or 50 per cent of the reduced annuity depending upon the amount of reduction made in the annuity of the deceased during his lifetime. A lump sum death benefit is payable to a designated beneficiary. This benefit consists of 4 per cent of wages up to \$300 per month earned since December 31, 1936 less the amount of any annuities paid. Employees who were retired before the federal Railroad Retirement Act was passed are paid "pensions" equal to those formerly received under the private retirement system up to \$120 per month. The average monthly benefit for age retirement, based on annuities and pensions in force as of June 30, 1943 was \$65.76. Of the age annuities in force on that date (excluding pensions), 93 per cent had been awarded to annuitants at age sixty-five or over and averaged \$65.81 as compared with \$65.17 for annuitants who qualified for age annuities before sixty-five.

SOME COMPARISONS BETWEEN THE SOCIAL SECURITY SYSTEMS
AS PROVIDED BY THE RAILROAD RETIREMENT ACTS
AND THE SOCIAL SECURITY ACT

In the comparisons which follow social insurance as provided by the Railroad Retirement Act and the Social Security Act will be referred to as the railroad plan and the general plan respectively. For the fiscal year 1942-43 wages covered by the railroad plan represented 3.7 per cent of total wages paid in the United States while the general plan covered 68.8 per cent of the total.⁹⁶ In 1944 the number of employees covered by the railroad plan was about 2 million, while that for the general plan was nearly 48 million. Under both plans employees and employers contribute an equal amount to the fund for benefit payments, but the rate schedules are different.

As originally enacted, the general plan required employer and employee each to pay 1 per cent for 1937 with a gradual increase to a maximum of 3 per cent in 1948, but by later amendments the 1 per cent rate was continued through the

⁹⁶ *Social Security Yearbook, 1943*, p. 9.

calendar year 1945. Under the railroad plan a rate of $2\frac{3}{4}$ per cent was to be paid in 1937 by both carrier and worker with a gradual increase to $3\frac{3}{4}$ per cent in 1948. Congress has thus far (1944) allowed the latter rate schedule to remain in effect. At the time the Federal Government entered the field of Railroad Retirement Insurance, railroads had accumulated considerable experience in operating private pension systems. The responsibility for payment of benefits to employees already retired and receiving pensions under the railroad plan was assumed by the Railroad Retirement Board. Older employees who retired soon after the federal system became operative were paid maximum benefits, whereas it will require a generation before maximum benefits will be paid under the general plan. The peak of annual benefit payments for railroad employees will be reached at a much earlier date than that for workers under the general plan. For these reasons it was less difficult to formulate a tax rate policy for the railroad plan than for the general plan.

Each of the two plans contain features not to be found in the other. For example, a railroad worker with thirty years' service may retire at sixty and will receive full benefits but an employee covered by the general plan must wait until he is sixty-five before receiving payments. The maximum benefit for a railroad worker is \$120 per month while that for an employee covered by the general plan is \$85. When a railroad worker acquires benefit rights, they are not lost when he transfers from covered employment or his service is discontinued, but it is possible for a worker covered by the general plan similarly situated to lose all benefit rights. Under the railroad plan the surviving spouse is entitled to receive benefits only if the deceased worker agreed to accept a reduced annuity during his lifetime. The general plan provides for benefits to be paid to dependents of deceased employee without any reduction during the lifetime of the insured.

V

SUMMARY AND CONCLUSION

PUBLIC ASSISTANCE

SINCE 1931 Michigan has experienced greater developments in the field of public assistance for indigent persons than in any previous period. Prior to that date public assistance was relatively an unimportant social function which was regarded traditionally as the responsibility of local government or of private charitable agencies. In relatively few years the administration and financing of public assistance have become important functions of the federal, state, and local governments. In 1929, before the effects of the depression were felt, it is estimated that the cost of public assistance by the local governments in Michigan was about \$8 million. For the fiscal year ending June 30, 1943, total expenditures from federal, state, and local funds for this purpose were between \$44 and \$45 million. The expenditure of this vast sum in a comparatively prosperous year brings into focus a marked change in social outlook. The summary and conclusion with respect to each type of public assistance are presented in the sections which follow.

OLD AGE ASSISTANCE

The state-federal social security program for assistance to the aged was established in Michigan in 1936. At first, because of limited funds, adequate benefits could not be paid; but it is now possible for any needy aged person to receive a monthly income sufficient to supply fairly adequate food and clothing and at the same time retain ownership in a modest home. In less than a decade a program has been well launched which is designed to remove old people from the loathsome conditions prevailing under the former poor law with its tradition of stigma. This new arrangement makes it possible for many to live out their lives with sufficient income to maintain a sense of self respect and security.

If present provisions of the federal social security program

are carried out, the cost of old age assistance will be diminished gradually as increasing numbers of workers are retired under the Old Age and Survivors Insurance Law. As was explained earlier in this study, old age insurance covers wage earners mainly in the field of industry and business. Covered workers and employers contribute equally to a trust fund out of which benefits are paid. With the reduction in the cost of general relief and a leveling off of the number of applicants for old age assistance, it should be possible to appropriate sufficient funds to cover the increased cost of living and to establish a more adequate program for the aged. This program is not only a sound social objective, but it may prove to be a stabilizing influence during periods of declining prices and unemployment.

AID TO DEPENDENT CHILDREN

The federal-state program for furnishing aid to dependent children is a great improvement over the former locally operated mothers' pension plan; in the majority of Michigan counties it is more liberal with respect to eligibility and amount granted; state and federal funds are more dependable sources of revenue than county appropriations; and administration by a staff selected under state civil service and centrally supervised by the State Bureau of Social Security is superior to the former system, which was administered by the county probate courts. In Michigan, as in many other states, the development of an adequate program for aid to dependent children has been delayed for the lack of funds. Although the monthly average payment was increased in 1944 substantially over previous years, it is still necessary for the more destitute families to apply for general relief. This situation can be remedied by raising the limitation on federal grants and increasing state appropriations which would eliminate the necessity of establishing state maximums on the benefits to be paid families of different sizes and would allow the payment of relief according to need determined on a family budgetary basis.

Although it is permissible under the Social Welfare Act of 1939 to consolidate the administration of general relief and the

categorical aids, on the local level, only a few counties have adopted this system. In those counties where consolidation has been accomplished, it is possible for a single case worker to visit a family and arrange for sufficient funds to maintain the dependent child according to the standards provided by the Social Security Act. Integration of the administration of general relief and the categorical aids seems desirable by whatever method possible; whether that be by persuasion of county officials if the present law remains unchanged, or by legislation which will centralize the supervision of all assistance in one division of the Social Welfare Commission, and for state and local governments to increase their appropriations so that the general relief program will be on a par with the categorical aids.

AID TO THE BLIND

Michigan first established regular assistance to the indigent blind in 1936 under the stimulus of the Social Security Act, which provided for the matching of state funds up to a maximum of \$40 per month for each applicant. Prior to that year the indigent blind were given poor relief the same as other needy persons. Although the present plan of aiding the blind marks a vast improvement over methods employed under the old poor laws, available funds are not sufficient to provide adequate care and protection. Additional funds are needed for ordinary living expenses of the blind and for treatment of those who show promise of recovery or improvement of sight.

INTEGRATION OF PUBLIC ASSISTANCE SERVICES

In most Michigan counties the three closely related groups of public assistance—general relief, soldiers' relief, and the three categorical aids—are each administered by an independent division of government. As previously explained, control of policies and administration of the categorical aids was placed in the State Bureau of Social Security in order to qualify for federal grants. The fact that the Federal Government participates in financing the categorical aids, however, does not necessitate the setting up of a separate and independent state division for their administration. The plan for administering

general relief was determined largely by a legislative compromise between two conflicting points of view with the result that it fails to meet the requirements of sound organization practice.

A fundamental principle in administrative organization is to integrate activities similar in scope, type of work, and technique under the supervision of a single director. As defined by one writer: "Integration means the bringing together of related functions into one organization, on one level of government, in an ordered relationship. The purpose is to eliminate over-multiplication of administrative agencies that lack correlation in their services and substitute a well-balanced mechanism whose parts relate to each other in smooth operation."¹ In 1945 an advanced step was taken when the Michigan law was amended permitting the appointment of a single executive to head the state department of social welfare and the bureau of social security. In a measure this arrangement integrates the functions of the two divisions. The present law authorizes the appointment of a single executive and staff under state civil service to administer both general relief and the categorical aids on the local level. Although this is the nearest possible approach to complete integration sanctioned by the existing law, it falls short of that goal in two respects. First, the executive head must report to two separate authorities—the county board of social welfare and the State Supervisor of Social Security. Second, soldiers' relief is administered on the local level by an independent county commission. Counties would probably oppose the release of any of their control over general relief to the state department as long as they are responsible for raising a substantial part of the funds by local taxation.

The provision of the Social Welfare Act, which permits county social welfare boards to act as policy determining bodies and at the same time to serve in an administrative capacity under supervision of the board on a full salary basis, violates fundamental principles of administrative organization.

¹ Marietta Stevenson, *Public Welfare Administration* (New York: The Macmillan Company, 1938), p. 130.

The standards of performance in the administration of general relief vary from county to county depending upon qualifications of personnel and the type of organization set up. In certain counties the administration of general relief probably compares favorably with that of the categorical aids, but in others it resembles the old poor relief of generations ago.

WELFARE SERVICES FOR CHILDREN AND HANDICAPPED PERSONS

In Michigan the responsibility for child welfare service has been entrusted to a number of state and local agencies. These include the State Department of Social Welfare, the Juvenile Institute Commission, the Michigan Children's Institute, the Juvenile Division of the Probate Court, County Department of Social Welfare, and Governor's Youth Guidance Committee.

The State Department of Social Welfare is required by law to assist in the development of sound programs and standards of child welfare operated by public organizations throughout the state; to co-operate with private child welfare organizations in programs mutually agreed upon, and to provide a service of consultation and assistance to the juvenile probation service of probate courts. The children's division has been created within the State Department of Social Welfare to perform the duties with which it is charged. The division furnishes field consultants to advise with local officials and agencies interested in child welfare and sends trained child welfare workers on request to counties which are actively engaged in child welfare work. These services have been expanded more recently in an effort to meet the problem arising out of war conditions. Another service performed by the division is investigating and licensing all child welfare agencies and boarding homes. As a wartime service the division has assisted the local communities in establishing and maintaining day care for children of mothers employed in industry.

The Juvenile Institute Commission has control of the Michigan Children's Institute, the Girls Training School at Adrian, and the Boys Vocational School at Lansing. Although the Social

Welfare Act places this commission within the Department of Social Welfare, it is responsible directly to the governor and operates independently of the Michigan Social Welfare Commission or any of its divisions. The Michigan Children's Institute was created for the care of homeless, dependent, and neglected children. Although the care of children in a state institution is considered an improvement over that provided in county homes such as were maintained in some other states, it was later realized that the grouping of children in an institution far removed from their families and home communities had its limitations. Greater stress is now being laid on foster care service and at present most of the wards have been placed in family boarding and free homes. Only small quarters are maintained by the Michigan Children's Institute in Ann Arbor for the observation and care of unusual children and for housing the administrative offices. Likewise greater emphasis is being placed more recently on foster care for children who have been committed to state schools for delinquents.

Child welfare services on the local level are provided mainly by the juvenile division of the probate court. The county agent, who is designated by law as an officer of this court, administers child welfare services under the general supervision of the probate judge. He is appointed by the governor from recommendations of the probate judge or judges, and is paid by the state. The law specifically exempts the county agent from state civil service, and the only qualification required by law is that he must be a "suitable person." In 1944 the Governor's Legislative Committee recommended that a special state board be created to certify to the qualifications of county agents, but this was rejected by the legislature. It would be an advanced step in raising the standards of child welfare service to require that all county agents be appointed according to a uniform merit plan. In 1944 the law was amended providing for full-time county agents in counties of 30,000 population or over to be paid an annual salary graded according to population. This is a decided improvement over the former plan which permitted the appointment of county agents for part-time on an inadequate per diem

basis. Further provision should be made that would enable two or more counties of less than 30,000 population to unite for the purpose of employing a full-time county agent on a salary basis.

County departments of social welfare are required by law to assist in developing sound programs of child welfare; to promote programs and policies for the prevention of dependency, neglect, and delinquency, and other adverse conditions affecting the welfare of families and children. The county board of social welfare is required upon request by the juvenile division of the probate court to make investigation of children under its jurisdiction. Probate judges seldom call upon county departments of social welfare for assistance in dealing with children under their jurisdiction, and as a general rule little or no child welfare activities are carried on by these departments.

The Michigan laws do not place power of general supervision and co-ordination of the various child welfare services in any one agency. Increasing child delinquency arising out of war conditions focused attention upon the need for a more effective organization for dealing with child welfare problems. In an attempt to remedy this situation the Governor's Youth Guidance Committee was created in 1943 consisting of the heads of state departments and representatives of associations of local officials who are responsible for some phase of child welfare. The function of this committee is to plan and co-ordinate child welfare work of state and county officials and to advise with the governor of methods of meeting the problems of youth. Youth guidance committees have been organized in most of the counties to co-ordinate and plan activities on the local level. The voluntary organizations throughout the state interested in the problems of youth form the state-wide youth guidance advisory council whose function it is to integrate governmental and voluntary youth programs. The work of these committees to date has resulted in the revision and simplification of juvenile law and in improving and strengthening programs for the protection, development, and guidance of youth. In 1945 a youth guidance commission was created consisting of the governor and the heads of the several state departments re-

sponsible for certain child welfare activities and six members to be appointed by the governor to serve at his pleasure. The purpose of this commission is to promote programs for child guidance.

According to widely accepted principles of administrative organization, control of the policies and administration of welfare services to children would be most effective when vested by law in a division of a state department of social welfare. More complete integration of child welfare services in Michigan could be accomplished on the state level by transferring the functions now performed by the Juvenile Institute Commission to the State Department of Social Welfare. Better co-ordination of the several child welfare functions, it appears, would be possible if administered by a single director. Broad policies of child welfare should be determined on the state level and the program made uniform throughout the state. Detailed administration of the services might be carried out on the local level under the supervision of a qualified child welfare worker within an integrated county department of social welfare headed by a single director.

The Michigan Social Welfare Commission has created a division of services for the blind which co-ordinates the activities of public and private agencies; finds employment for blind persons in industry; and administers the Michigan Employment Institution for the Blind at Saginaw. The Institution furnishes vocational training for the blind and permanent employment for a limited number. Federal funds have been made available for the rehabilitation of the blind in a separate program administered by the division for services for the blind with the result that a substantial number of blind persons have been converted into productive citizens through the co-ordinated program of rehabilitation and training.

VOCATIONAL REHABILITATION

The state-federal service for vocational rehabilitation, which was first established in 1921, was strengthened and made more secure by the Social Security Act of 1935. The objective of the

program is to restore disabled persons to remunerative employment, and provision is made for all facilities necessary for their preparation and placement in suitable occupations. The leadership of the Social Security Board and the stimulus of federal financial assistance have contributed much to the advancement of this work. Since 1921 over ten thousand persons have been rehabilitated.

The fact that the cost of maintaining a dependent person during his life is in excess of that required for rehabilitation more than justifies the expenditures of public funds for rehabilitating disabled persons aside from any humanitarian consideration. This service has contributed to the nation's effort in recruiting its manpower for defense, and after the war is now playing an important role in the restoration of disabled war veterans.

HEALTH AND MEDICAL SERVICES

The administration of the health services of Michigan on the state level is divided among a number of independent agencies, including the Michigan Department of Health, the State Department of Mental Health, the Tuberculosis Sanatorium Commission, and the Crippled Children Commission. On the local level the health services are administered by county and district health departments, city health departments, and township boards of health.

The Michigan Department of Health, headed by the State Health Commissioner is responsible generally for the conservation of health and the lengthening of life by such services as controlling communicable disease, guarding and improving environmental sanitary conditions, and educating the public in healthful living. One of the most important services rendered by the state department has been the promotion and supervision of local health departments, for it is largely through these units that the immediate application of health measures is accomplished. Federal grants authorized by the Social Security Act and the Venereal Disease Act have been effective in strengthening and developing both state and local health services. In 1943 fourteen of Michigan's eighty-three counties had

not established health departments. It is difficult for the state department to extend its service to communities that have not formed such departments. The value of an efficient local health unit in meeting the problems in smaller counties has been demonstrated in Michigan and other states, and it seems urgent that a well-organized county or district department of health be established to serve every county of the state at the earliest possible date.

An important responsibility which the Michigan Department of Health has assumed is the promotion of maternal and child health. This program was improved in 1936 and subsequent years under the stimulus of the Social Security Act. Analysis of the activities of the Bureau of Child and Maternal Health reveals that significant progress has been made in this field.

The three state tuberculosis sanatoriums are controlled by the Tuberculosis Sanatorium Commission. The commission is responsible for maintaining hospitals for the "humane, curative, and economical treatment of persons afflicted with tuberculosis," and for the appointment of medical superintendents to head the state sanatoriums. A bureau of tuberculosis control has been set up within the Michigan Department of Health. This bureau supervises the control of tuberculosis throughout the state and aids the full-time county health departments in developing local programs.

In 1945 the State Department of Mental Health was created to administer the mental hygiene program. The department consists of a five-member commission which is responsible for establishing the policies, rules, and regulations of the department, and a director who serves as executive head of the department. Separate divisions, each headed by a superintendent, have been established within the department. The director with the consent of the commission appoints a superintendent for each state hospital and training school. Under the former organization responsibility for the mental hygiene program was centered in a seven-member commission with the superintendents of ten state hospitals, the executive director, and the director of mental hygiene each reporting directly to the com-

mission. It seems obvious that the administrative reorganization of 1945 should result in a more efficient and a better co-ordinated program.

Child guidance clinics were created in 1941 as a division of the general program of mental hygiene under control of the State Hospital Commission, and by 1945 children's clinics had been established in nine principal cities of the state. In 1945 these clinics were placed under the supervision of the director of the newly organized State Department of Mental Health. Physicians, probate judges, schools, case work agencies, and parents may refer cases to these clinics for study and treatment. The director is assisted by a professional staff, consisting of psychiatrists, psychiatric social workers, and psychologists. Each area served selects an advisory board whose responsibility is to raise the community's share of the funds and to assist locally in interpreting the purpose of the program. Services offered by the staff are consultation, diagnosis, treatment, and community education.

The recent revision and enlargement of the child guidance program marks significant progress in improving the mental health of children. The numerous clinics now operating throughout the state render an invaluable service to schools, social agencies, parents, and the courts in dealing with the behavior problems of children. It has been necessary to establish a waiting list because of the lack of trained personnel, a situation which will be remedied as soon as the communities find it possible to furnish additional social workers.

Two special health programs for children have been created: one for crippled children and another for sick and afflicted children, both of which are administered by the Crippled Children Commission. When these programs were initiated, it was believed that a special commission would be better adapted to organize and promote services for such children than any existing agency. Unquestionably placing the main control of these functions in a single state commission has made for efficiency, but when viewed from the standpoint of sound principles of administrative organization, it seems they should be placed under

the control of the State Department of Health. By this arrangement related functions would be brought together on one level of government and the number of independent agencies reduced. The rehabilitation of handicapped children is a social service which has a strong appeal from both the economic and humanitarian standpoints, and it has been well supported financially. The Federal Government has contributed substantial funds for the care and treatment of crippled children since 1936, but the state has furnished the bulk of the funds.

Analysis of the over-all financial picture of health and medical services in Michigan reveals certain significant trends. Federal assistance for the advancement of special health programs have increased steadily since 1936 both in amount and proportion to total state expenditures. The programs in which the federal government has participated are general public health services, maternal and child health, venereal disease control, and crippled children. In 1944 federal grants for these services amounted to 9.1 per cent of the total state expenditures for health and medical services. There was a sharp decline in total state expenditures in 1940 which can be explained in part by the sudden reduction in the appropriations for crippled children for that year. Beginning in 1940 the trend has been upward and by 1944 the state total had reached \$19 million. Of this total 63.34 per cent was spent for mental hygiene, 16.35 per cent for tuberculosis, 8.16 per cent for the Michigan Department of Health, 5.44 per cent for crippled and afflicted children, 6.51 per cent for grants to local units and 0.2 per cent for miscellaneous services. For the period 1939-44 the tendency was for the proportions of total state funds spent for the Michigan Department of Health, and sick and afflicted children to decrease while the proportions disbursed for grants to local units increased.

For the fiscal year ending June 30, 1944, total expenditures for the sixty-nine counties operating county and district health departments amounted to \$1.4 million. Of this total 42.8 per cent was from county revenues; 24.9 per cent from private donations; 21.2 per cent from federal funds distributed by the

state; 10.3 per cent from state funds; and 0.8 per cent from miscellaneous sources. For the same period expenditures for the health departments of the ten major cities of the state amounted to \$5.7 million. Of this total 2.03 per cent was from federal funds distributed by the state and the balance from city sources.

SOCIAL INSURANCE

WORKMEN'S COMPENSATION

Workmen's compensation, first adopted in Michigan in 1912, is a pioneer service in the field of social insurance, and has contributed a valuable experience to guide in the development of newer programs. The purpose of workmen's compensation simply stated is to provide a prompt, convenient, and inexpensive remedy for persons injured in industry without proof of negligence on the part of employer or employee.

In 1943 Michigan's workmen's compensation act was thoroughly revised and a number of features introduced which had produced satisfactory results in other states. Important among these changes was the broadening of the compulsory feature. Formerly employers could elect whether or not to come under the provisions of the act, but, as amended, the law is compulsory upon those having eight or more workers, except those employing domestic or farm labor who may still elect to come under the act. Public employers at the state, county, township, and municipal levels are covered by the act irrespective of number of persons employed. Prior to the 1943 amendment compensation was paid only for accidental injury arising out of and in the course of the employment, but now all personal injuries are compensable. Under the former law only thirty-one occupational diseases were designated as compensable; the amendment abolished this limited schedule and included all industrial diseases. Minimum and maximum benefit rates have been increased materially and a sliding scale of benefits has been established which takes account of the number of persons dependent upon the injured worker. The period of hospitalization and medical care has been extended to cover the worker until he is cured or relieved from the effect of the injury. As the re-

sult of recent legislation Michigan may be ranked among the most advanced states in amount of compensation paid to injured workers and in methods of administration.

Although Michigan has modernized and improved its workmen's compensation system, there are still unsolved problems. One of these problems which has been prominent in recent discussions is whether insurance against injury should be in an exclusive state fund or whether private insurance carriers should be allowed to compete with the state fund. More specifically, does insurance with private carriers involve wasteful duplications and higher costs which serve as a deterrent influence to the liberation of benefits? How do the methods of insuring compensation to injured workers compare with later plans developed for insuring unemployment and old age? Does the seven hundred fifty-week period of payments in a liberal state such as Michigan furnish adequate coverage of workers who suffer permanent handicaps early in life? These and other problems await special analysis which are beyond the scope of a brief study such as is undertaken here.

UNEMPLOYMENT COMPENSATION

The Michigan Act

Unemployment compensation was established in 1936 as part of the Social Security Program initiated by the Federal Government in 1935. The Michigan Act, like that of other states, is designed for the protection of unemployed workers regularly attached to the labor market. In twenty-five states, including Michigan, employers with fewer than eight employees are exempt from the payroll tax because of the cost and effort involved in the collection from numerous small employers. Most of the remaining states impose the payroll tax on employers with less than eight employees and a few allow no exemptions. It has been demonstrated in several states that protection can be extended to small employers with reasonable success. Moreover, federal experience with old age insurance establishes the fact it is feasible to administer a payroll tax imposed on small employers.

In Michigan, no benefits are paid on small earnings for administrative reasons. This is contrary to the policy adopted by the great majority of other states. On the portion of workers' earnings on which benefits are paid, Michigan may be considered liberal as compared with the great majority of other states. Benefit payments increase as the amount of income and steadiness of employment increase. Although Michigan compares favorably with other states, it is obvious from experiences related in this study that benefits paid have not been sufficient to carry the wage earner through comparatively short periods of unemployment.

It should be observed that in Michigan, as in other states, benefit payments do not compensate a worker for the entire loss of wages, but merely serve as a cushion to help tide him over periods of unemployment. Obviously workers share part of the risks of unemployment, which in principle is not objectionable if this burden is fairly distributed between employer and employee. In five states of this country, in Canada, England, and other countries employees are required to pay for part of the insurance from his wages. This principle is also carried out in the Federal Old Age Insurance where the payroll taxes are shared equally by employer and employee. The methods of allocating costs of unemployment insurance is probably influenced by the risk which it is intended to cover. As interpreted by the Unemployment Compensation Study Commission reporting to the governor of Michigan in 1942, the purpose of unemployment insurance is "to retain a pool of experienced and skilled workers in a given locality available for rehiring in the same trade within a reasonable period of purely temporary unemployment."² According to the commission, the purpose of unemployment compensation is to insure the employer against certain risks affecting his profits. This view seems to sanction the payment of all costs of temporary unemployment by the employer. As more broadly conceived the objective is to

² Mich. Unemployment Compensation Study Comm., "Report," *Journ. Mich. Legislature*, Senate, Extra Session, 1942, pp. 12-19; reproduced in *Biennial Rept. of the Mich. Unemployment Comm.*, 1940-42, pp. 57-64.

furnish benefits to workers who have been thrown out of employment involuntarily and who in normal times could and would be employed. Benefits to this group of workers should be sufficient to carry them over any period of temporary unemployment without exhausting their savings or compelling them to seek general relief. The broader concept of unemployment insurance it seems would sanction sharing of costs by employer and employee.

The brief experience with unemployment insurance indicates that adequate protection cannot always be secured by an arbitrary formula limiting the benefits to a fixed number of weeks based upon the amount of earnings. Obviously it is impossible to contemplate for how long a period any group of workers will remain unemployed in the future, or the amount of income that will be required to meet their needs, but an element of flexibility might be introduced into the formula which would permit of some extension of protection dependent upon the amount of the reserve available and the willingness of the claimant to take training or other steps to improve his prospects of employment.

States differ considerably in methods of financing unemployment compensation. It is optional under the provisions of the Social Security Act whether any state adopts a uniform tax or one based upon the individual employer's experience in the payment of benefits to unemployed workers. Experience rating was designed to encourage employers to stabilize their employment. Employers of all the states were required to impose a uniform rate until sufficient time had elapsed to establish a ratio of benefits to volume of unemployment upon which to base an individual rate, and to give them an opportunity to work out plans of stabilization. Naturally stable industries saw an opportunity in experience rating to reduce their rates substantially with little or no special effort toward stabilizing employment, and the less stable industries were influenced to undertake the plan with hope of reducing their rates by establishing more stable employment. It is not surprising, therefore, that by July 1, 1945, forty-five of the fifty-one jurisdictions, in-

cluding Michigan, had adopted experience rating. Although it can be demonstrated that the adoption of experience rating has led some employers to accomplish stabilization in employment to a limited extent, it is generally conceded that individual employers are unable to control the principal causes of unemployment. The Social Security Board believes that experience rating has led to competition among the states to reduce payroll taxes in order to avoid being placed at a disadvantage from the standpoint of operating costs and that this may in time endanger the solvency of reserve funds, notwithstanding the fact that many of these have risen to comparatively high levels under the stimulus of wartime activities. On the other hand there are those who are of the opinion that competition among the states has been instrumental during the last few years in liberalizing benefits, and that this tendency has not been materially affected by competition in rate reduction.

The Michigan law does not provide for adjustment in the amount of funds which may accumulate in the unemployment reserve fund. A 1941 amendment abolished a provision in the 1939 law increasing rates when the ratio of total benefits to payrolls rose and reducing them when this ratio declined. Ten states have devised rate structures which permit employers to accumulate a larger reserve fund while wartime earnings are at a high level and unusual unemployment risks are being incurred. The principal advantages of this practice may be summarized as follows: (1) more adequate reserves are assured with which to meet anticipated increased unemployment benefits in the postwar period, (2) employers accumulate reserves while earnings are at their peak, (3) an increase in rates may be avoided in the postwar period when earnings may be low and unemployment prevalent, and (4) increasing rates in the postwar period may result in damaging competition with industries of other states where ample reserves were accumulated from inflated wartime earnings.

Standardization and uniformity of state unemployment compensation acts is a problem on which considerable difference of opinion has developed. One point of view favors continuance of

the present plan which permits control by the individual states with little interference by the Federal Government. Those favoring this plan point to the progress already made by the states in improving the law, and maintain that standardization and uniformity can be accomplished by co-operation among the states. At the other extreme is the view that federalization is the only method of eliminating the numerous defects of the present system. The arguments in support of these opposing points of view have been presented elsewhere in this study. Others believe that the main defects in the several state laws can be remedied by federal legislation which would establish minimum standards applicable to all states, but would leave the states considerable freedom in experimentation and the exercise of initiative. Although some of the arguments for federalization have a strong appeal to many students, they do not establish conclusively that this is the only solution to the problems. There appear to be possibilities of working out a fairly satisfactory state-federal co-operative plan short of complete federalization.

Railroad Unemployment Compensation

In 1938 a special nationally administered system of unemployment compensation was established for railroad workers and carriers previously covered by private and state unemployment compensation systems. This act is administered by the Railroad Retirement Board and financed by federal tax collected from carriers. As compared with the federal-state unemployment system in effect in Michigan, the railroad system has a more simple method of computing benefits. Experience rating such as is found in Michigan and other states is not permitted by the Railroad Act; the system operates uniformly in all states, and employers pay into a nationally pooled fund at the same rate.

OLD AGE AND SURVIVORS INSURANCE

It is now generally recognized that many persons are unable to provide for their old age security through individual savings and investment. The earnings of some workers are not suffi-

cient to meet their current needs and to permit of savings. Others are dependent because of their improvident habits during the productive period of their lives, or for the reason that economic reverses have swept away their life-time savings. That the government should assume leadership in a plan to spread the cost of a livelihood of old age over large groups, and thus provide a collective means of protection against individual vicissitudes, is widely accepted. The Social Security Act of 1935 established two separate and supplementary systems for providing old age security. One is a federal-state, noncontributory old age assistance plan administered under state laws and financed jointly by the federal and state governments. The other is a federally administered system of old age insurance financed from payroll taxes imposed equally upon employers and employees. The former system has already been examined under the general head of public assistance. The latter provides for a reserve account to be set up in the Treasury from which qualified persons sixty-five years of age or older are to be paid regular benefits as a matter of right and regardless of need. The 1939 amendment transformed the old age insurance of individual workers into an insurance plan to include protection for the wage earner's family. The amendment also extended coverage to additional categories of workers, increased the average benefits payable in their early years, provided protection for the widows and surviving children of the deceased beneficiaries, and advanced the beginning date for the payment of monthly benefits from 1942 to January, 1940.

It was not possible for those who initiated the Social Security Program to foresee all the risks to which the worker would be subjected in both periods of depression and prosperity. Although some of the defects of the program were remedied by the amendment of 1939, others are now appearing. The omission of a substantial part of the working population from the old age insurance program gives rise to numerous inequitable situations. Workers who change from covered to noncovered employment often fail to qualify for benefits although they have contributed to the system. Many workers who have ac-

quired wage credits in wartime industries will lose their protection when they transfer to self-employment or other noncovered occupations. Small employers are demanding the same type of protection which they are helping to finance for their employees.

A gap in coverage which deserves serious consideration is the failure of the system to protect workers against the risk of permanent disability resulting from illness. This hazard reduces family income at a time when expenses are often the greatest, and it is more threatening in many cases than incapacity due to old age. By spreading the cost of adequate medical care and loss of wages over the working population now covered by old age insurance, the risk of the relatively few workers who become permanently disabled would be carried by self-supporting families. Permanent disability occasioned by illness is a risk to which social insurance appears to be especially applicable.

In the original act, taxes were to be imposed upon both employers and employees, beginning in 1937, at the rate of 1 per cent of the payrolls and rising at three-year intervals to 3 per cent in 1949. It was estimated that the reserve accumulated from these taxes would amount to about \$47 billion by 1980. Later amendments postponed the scheduled increase in taxes, discontinued the actuarial reserve basis established in the original program, and provided for a contingency reserve. The only estimates now available indicate that the benefit payments will exceed the annual revenue from the payroll taxes by about 1955. When this occurs it will be necessary to adopt one or more of the following procedures: (1) draw on the contingency reserve, (2) increase payroll rates, (3) appropriate funds from general taxes, or (4) reduce benefits.

No definite long-run plan for financing the program has been formulated—the solution of the problem has merely been postponed indefinitely. A sharply defined difference of opinion arose over the type of plan to be followed in financing the program. One group advocated the so-called “pay as you go” plan, and the other believed that the only sound policy is to accumulate an actuarial reserve from payroll taxes. The pay-as-you-go

group won a partial victory in 1939 by eliminating the actuarial reserve, but it failed to provide an adequate plan of financing old age insurance. The present policy of paying benefits as they mature from the receipts of payroll taxes does not spread the financial costs over the productive lives of the individual workers and permits the generation which established it to escape without paying its share of the cost, thus shifting the burden on to future workers. A properly constructed and managed actuarial reserve accumulation from payroll taxes would spread the financial costs over the longest possible period of time with the result that such costs would be charged to the productive lives of the individual workers concerned. The millions of younger workers who are now contributing to old age insurance may well be concerned over the accumulating deficits which they may be called upon to pay when the annual benefit payments reach their peak. If Congress is unwilling to provide for present actual costs of the program as they are incurred, can it be expected to meet the much larger and increasing costs which are accumulating as disguised deficits? Unless higher rates are allowed to become effective during the early years of the program, an inequitable burden will be thrown on future beneficiaries or general taxpayers.

THE RAILROAD EMPLOYEE RETIREMENT SYSTEM

Retirement of railroad employees was authorized by the Railroad Retirement Act of 1935 and the amendatory Railroad Retirement Act of 1937. These acts cover employers and employees of railroads, sleeping car companies, and express companies subject to the Interstate Commerce Act and other related agencies which perform services in connection with railroad transportation.

The railroad retirement system is administered by the Railroad Retirement Board with the assistance of an actuarial advisory committee. The system is financed by a federal payroll tax imposed equally upon carriers and employees. The act provides for a reserve account to be set up in the United States Treasury from which administrative expenses and employee

benefits are paid. At intervals of not longer than three years, the Railroad Retirement Board must determine the amount of funds that will be necessary to finance the system. The actuarial advisory committee examines the methods employed by the board in performing this function and recommends any changes considered necessary. Evaluation of future liabilities by the Railroad Retirement Board was a less difficult task than was encountered by the Social Security Board; for when the Railroad Retirement Board assumed responsibility for the payment of benefits, maximum payments were already being made to many retired railroad workers, whereas it will require a generation before maximum benefits will be paid to workers under the Social Security Act.

Certain policies and practices followed by private carriers prior to the enactment of the Railroad Retirement Act were influential in the formulation of the railroad retirement system, and accounts in part for the variations that exist between the two federal social insurance schemes. There are certain features of the Railroad Retirement Act which are more favorable to workers than are provided by the Social Security Act. Under the former act workers may retire with maximum benefits at a younger age; higher maximum payments are allowed, and the worker is afforded better protection when transferred from covered to uncovered employment. On the other hand, the dependents of workers eligible for insurance under the Social Security Act appear to fare better than those covered by the Railroad Retirement Act. The differences in the two federal schemes of social insurance are based on historical rather than fundamental reasons and it seems reasonable to expect that in time these differences will become less important and the two acts will be merged into a uniform system of old age insurance.

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INDEX

- Acee, Alfred, 78
- Actuarial Advisory Committee, Railroad Retirement Board, 128-31, 154-55
- Administration, afflicted children, 69-70
 - child welfare, 31
 - crippled children, 63-68
 - old age and survivors insurance, 111-13
 - public assistance, 21-23
- Railroad Employee Retirement System, 128-29
- railroad unemployment compensation, 109
- unemployment compensation, 81-82
 - vocational rehabilitation, 49-50
 - workmen's compensation, 75-76
- Afflicted children, 68-73
- Aid to the blind, 136
- Aid to dependent children, 11-16, 135
- Allie, Betty W., 75
- Altmeyer, A. J., 106-7, 114-5, 122, 126
- Appeals Board, unemployment compensation, 82
- Atkinson, Raymond C., 83
- Benefits, the blind, 18
 - dependent children, 14-15
 - unemployment compensation, 100-5, 148-49, 109-11
 - old age assistance, 7-11
 - old age insurance, 115-16, 131-32, 153, 155
- Blind, Aid to, 17-19
 - services for, 46-47, 141
- Board of trustees, old age insurance reserves, 112-13
- Boys' Vocational School, 37-40, 138-39
- Bureau of Material and Child Health, 53-54, 143
- Bureau of Social Security, state, 4-5, 135
- Burns, Arthur E., 127
- Corson, John J., 112
- Categorical Aids, 4-19
- Child guidance
 - clinics, 144
 - program, 59-60
- Child welfare, 31-46, 138-141
- Child and maternal welfare and health, 53-55, 153
- Children afflicted, 68-71, 144-45
 - aid for dependent, 11-16, 135-36
 - crippled, 62-68, 144-45
 - welfare services for, 31-46, 138-41
- Clinics, Outpatient for mentally ill, 58
 - child guidance, 59-60
- Compensation Commission, workmen's compensation, 75-76
- County agent, 41
- County boards of social welfare, 41-42, 140
- Creamer, Daniel, 103
- Crippled children 62-68, 144-45
- Crippled Children Commission, 69-70, 144-45
- Dority, Ione, iii
- Douglas, Paul H., 112
- Dunham, Arthur, iii
- Expenditures, afflicted children, 71
 - aid to dependent children, 16
 - child welfare, 34
 - city health departments, 73
 - county and district health departments, 72
 - crippled children, 68
 - general relief, 27

- health services, 54
- Michigan Children's Institute, 37
- old age assistance, 12
- public relief, 8-10
- railroad retirement system, 130
- schools for delinquent children, 39
- vocational rehabilitation, 50-51
- Experience or merit rating, unemployment compensation, 85-95, 149-50
- Family care for mentally ill, 58-59
- Fauri, F. F., iii
- Financing, the blind, 18-19
 - child welfare, 34
 - dependent children, 15-17
 - general relief, 25-28
 - Michigan Department of Health, 61
 - Old age assistance, 11
 - old age and survivors insurance, 117-27
 - railroad employee retirement system, 129-31
 - railroad unemployment compensation, 109-11
 - unemployment compensation, 83-85
 - vocational rehabilitation, 50-51
 - workmen's compensation, 77-78
- Gansser, Emil E., 30
- General relief, 19-25
- Girls' Training School, 37-40, 138-39
- Governor's Legislative Committee on Youth Guidance, 45-46, 139
- Governor's Youth Guidance, Committee, 45, 140
- Grants-in-aid, federal, 12, 16, 34, 51, 56, 67-68, 72, 73, 84-85
- state, 25-28, 61-62, 72, 73
- Handicapped persons, services for, 46-51, 141-42
- Harris, Seymour E., 92
- Hawley, Amos H., iii
- Health and Medical Services, 52-73, 142-46
- Hill, James L., 75
- Insurance, commissioner of, 75, 77-78
- Juvenile delinquency, 43-44
- Juvenile Division of Probate Court, 40, 138, 139-40
- Juvenile Institute Commission, 35-40, 138-39
- Kellogg, W. K., Foundation, 73
- Kelly, Governor Harry F., 44
- Kelso, Robert W., 42
- Landers, Frank M., 19
- Legislative Survey Committee, Governor's, 45
- Local health services, 71-74
- Mahoney, Charles H., 75
- Matscheck, Walter, 83
- McAuliffe, Vincent P., 75
- Mental Hygiene, 57-58
- Merit rating, *see* experience rating
- Meyers, Charles A., 90-91
- Michigan Child Guidance Institute, 43
- Michigan Children's Institute, 35-37, 138-39
- Michigan Compensation Rating Board, 78
- Michigan Crippled Children Commission, 64-68, 69-70
- Michigan Department of Health, 52-57, 61, 62, 142-43
- Michigan Department of Mental Health, 57-61, 142, 143, 144
- Michigan Social Welfare Commission, 31-35

- Michigan State Hospital Commission, 57, 59
- Michigan Unemployment Compensation Commission, 81, 104
- Michigan Unemployment Compensation Fund, Maintenance, 95-100
- National Bureau of Casualty and Surety Underwriters, 78
- National Tax Association, Committee on Social Security, 121
- Old age assistance, 5-11, 134-35
- Old Age and Survivors Insurance, 111-27, 151-54
- Parker, James S., 119, 120, 122, 127
- Permanent disability, risk of, 116, 153
- President's Committee on Economic Security, 1, 112, 127
- Probate court, juvenile division of, 40, 139-40
- Public assistance, 3-30, 134-38
defined, 3
integration of services, 136-38
- Railroad employee retirement system, 128-32, 154-55
- Railroad Retirement Board, 109, 128, 154-55
- Railroad unemployment compensation, 108-11, 151
- Ramsey, C. F., 36, 37
- Rauschenbush, Paul A., 107
- Relief, average case load, 10
direct, 19
general, 19-28
outdoor, 19
indoor, 19
soldiers, 29
- Reserves, accruals to unemployment compensation reserve fund, 96
- actuarial versus "pay as you go," old age insurance, 119-26, 153-54
- Revenues, collected from parents of crippled children, 67
collected from parents of afflicted children, 70
- Safer, Fred, 115
- Social insurance, 1, 74-133, 146-55
- Social Security Board, 82, 84-85, 92, 99, 106, 113-14, 116, 119, 125-26
- Social security, definition, 1
- Soldiers relief, 29-30
- Stanchfield, Paul L., 97
- Standardization, state unemployment compensation acts, 105-8, 150-51
- State accident fund, 78
- State Board of Control for Vocational Education, 48
- State Civil Service Commission, 42
- State Council of Health, The, 52
- State Department of Mental Health, 57, 142, 143, 144
- State Department of Social Welfare, 5, 21, 22, 29, 138
- State Employment Service, 81-82
- State hospitals for insane, 57
- State unemployment fund, 84
- Stevenson, Marietta, 137
- Tallman, Frank T., 59
- Taxes, payroll—old age insurance, 117-18, 129
for soldiers' relief, 30
unemployment, 83-84
- Tibbitts, Clark, iii
- Truman, Aneta B., 37
- Trust Fund—Old Age and Survivors Insurance, 125
- Tuberculosis, 61-62, 143
- Tuberculosis Sanatorium Commission, 61, 142, 143

- Unemployment compensation, 80-
111, 147-51
- Uniform unemployment compensa-
tion acts, 105-8, 150-51
- Venereal disease program, 55-57, 142-
43
- Vocational rehabilitation, 48-51,
141-42
- Wagg, Charles F., 58
- Wandell, William L., 123
- Wellman, A. C., 103
- Williams, Edward A., 127
- Witte, Edwin E., 1, 123
- Workmen's Compensation, 74-80,
146-47
- Wyatt, Birchard E., 123
- Youth Guidance Advisory Council,
Michigan, 45
- Youth Guidance Committee, Gover-
nor's, 45
- Youth Guidance Commission, 46

